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China and the key to Asian peace

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Whether first or among equals, what sort of player will China be? ... More on this week's lead article

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Politics this week

Mar 23rd 2005
From The Economist print edition

EPA

America's euthanasia debate

An American federal judge and then an appeals court ruled that a vital feeding-tube could not be reinserted into **Terri Schiavo**, a severely brain-damaged woman. The federal judiciary's involvement came after an extraordinary intervention by Congress, which passed a bill (speedily signed by George Bush) allowing Mrs Schiavo's parents to ask for a fresh ruling after Florida's state courts decided the tube should be removed. Mrs Schiavo's husband argues that his wife would prefer to die.

See article

A 16-year-old schoolboy killed nine people on an Indian reservation in northern Minnesota. He then apparently killed himself. It is America's worst **school-shooting** incident since Columbine in 1999.

See article

The United States **Supreme Court** declined to hear an appeal that would have allowed Zacarias Moussaoui direct access to witnesses allegedly from al-Qaeda in judicial proceedings. Mr Moussaoui, a French citizen, has been indicted for an alleged connection with the September 11th attacks; his lawyers argue that having to rely on witness “summaries” compromises the basis of a fair trial.

John Rowland, the former Republican governor of **Connecticut**, was sentenced to a year in prison on a corruption charge. Mr Rowland pleaded guilty in December to accepting paid vacations to Las Vegas and Vermont and repairs to his holiday home in return for influence within the governor's office.

The Senate passed a **budget bill** that ignored many of the spending cuts Mr Bush had asked for in February. That bill will now have to be reconciled with the House's version, which calls for even harsher cuts than Mr Bush.

See article

Almost there?

The two **Iraqi** electoral alliances, one Shia-led and the other Kurdish, which together won three-quarters of the seats in January's general election, looked close to forming a coalition government, after apparently putting aside their differences over the disputed city of Kirkuk. The Americans said that, since the poll, the rate of insurgent attacks had gone down sharply.

See article

A suicide-bombing in **Qatar**, said to have been carried out by an Egyptian computer programmer linked to al-Qaeda, killed a British expatriate in a theatre in Doha.

Apparently confident that by fiddling the voters' roll and stuffing ballot boxes his ruling ZANU-PF will comfortably win a general election on March 31st, President Robert Mugabe decided to let in many of the foreign correspondents he had previously barred from **Zimbabwe**.

AFP

See article

In a series of street demonstrations in **Lebanon's** capital, Beirut, the anti-Syrian opposition continued its stand-off with the country's pro-Syrian president and a prime minister who seemed unable to form a unity government. Two bombings in Christian areas killed at least two people, heightening sectarian tension.

See article

The **Palestinian Authority's** security forces are now foiling as many attacks as Israel's forces are, according to an Israeli general.

See article

Ducking deficits

European Union finance ministers agreed to reform the euro area's **stability and growth pact**, which seeks to limit national budget deficits. The deal will allow many more exceptions and let-outs before any sanctions are applied. The European Central Bank objected strongly to what it considered a weakening of fiscal discipline.

A **European Union summit** was held in Brussels. Besides endorsing changes to the euro's stability pact, the summit also called for a relaunch of the EU's Lisbon Agenda of economic reforms. But France and Germany reaffirmed their opposition to a directive liberalising trade in services, a central part of that agenda.

See article

Two opinion polls shocked **France's** political elite by suggesting that there was now a small majority against the European Union constitution. The referendum on the constitution will be on May 29th.

See article

Arms race

Condoleezza Rice, America's secretary of state, wrapped up her visit to Asia with a fresh warning to the European Union about lifting its arms embargo on **China**. Jacques Chirac, France's president, said lifting the ban was a means of normalising relations, not a means for EU countries

to start selling weapons to China. However, support seemed to be growing in Europe for putting off a decision, possibly until next year.

See article

Fierce clashes between **Pakistan's** army and rebellious tribesmen in the western province of Baluchistan claimed dozens of lives and threatened to spark a small war. The tribesmen want more autonomy and a bigger share of wealth derived from local natural-gas reserves.

To comply with new trade rules, **India's** lower house of parliament passed legislation that curbs the country's potential for copying pharmaceutical drugs. The Congress-led government wants India to develop its own research. Opponents of the patent bill argue that many medicines will become unaffordable.

Braving the crowd

AP

In Havana, relatives of **Cuban dissidents** staged peaceful demonstrations to mark the second anniversary of a crackdown by Fidel Castro's communist government; they were outnumbered and harried by counter-demonstrators loyal to the regime.

See article

At its first policy convention, **Canada's** recently merged Conservative opposition edged towards the political centre. The convention moderated the party's social conservatism and endorsed the leadership of Stephen Harper.

See article

The United States announced a suspension of military aid to **Nicaragua's** pro-American government because the country's opposition has blocked progress on destroying Soviet-era shoulder-launched missiles.

See article

Bolivia's Congress rejected a call by the president, Carlos Mesa, for early elections. The Senate began to debate a proposed hydrocarbons law which would impose taxes of 50% on foreign oil and gas companies.

Brazil's president, Luiz Inácio Lula da Silva, appointed two new ministers, but he said he would not now carry out a long-promised wider cabinet reshuffle to give allied parties in his centre-left coalition more jobs at the expense of his own Workers' Party.

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Business this week

Mar 23rd 2005
From The Economist print edition

See you in court

Trade negotiators from the European Union and America argued over who was to blame for a breakdown in talks on cutting government subsidies to **Airbus** and **Boeing**. The talks, which began in January, sought to avoid formal complaints to the World Trade Organisation, which now seems likely to have to rule on the dispute.

See article

European Union finance ministers said they want to interview Paul Wolfowitz, George Bush's nominee for the presidency of the **World Bank**. Despite the "concern" expressed about the hawkish Mr Wolfowitz by some EU finance ministers, he is expected to be confirmed in the post.

Time Warner agreed to pay $300m to settle charges by America's Securities and Exchange Commission (SEC) that it overstated revenues from AOL, the conglomerate's internet business. The company will also restate financial results by an additional $500m for nine quarters up to the end of 2002. Time Warner does not admit or deny the SEC's allegations, but the company's accountancy procedures will be examined by an independent assessor.

Prosecutors in Frankfurt said they would not bring criminal charges against six **Citigroup** traders alleged to have manipulated euro-area bond markets in a deal last August.

Banco Bilbao Vizcaya Argentaria, a Spanish bank, said it was planning to bid for Italy's **Banca Nazionale del Lavoro** (of which it currently owns almost 15%). The deal, expected to be worth around *euro*7.5 billion ($10 billion), would be subject to approval by Italy's central bank, which has so far strongly resisted foreign takeovers of Italian banks.

See article

Two more large investment banks announced solid first- quarter net profits (compared with a year ago). **Goldman Sachs** posted a 17% rise for the quarter ending February 25th; **Morgan Stanley** reported a jump of 20% for the quarter ending February 28th.

Engine for growth

InterActiveCorp, which owns a variety of internet properties including Expedia, a travel site, announced that it was buying **Ask Jeeves**, a search engine, for $1.8 billion. IAC, which has around 42m visitors a month to its sites from the United States alone, will retain Ask Jeeves as an independent brand.

See article

AIG, the world's biggest insurance company, sacked Howard Smith, its chief financial officer, and Christian Milton, a vice-president, for not co-operating with regulatory investigations into the firm's accounting practices. The move comes soon after the resignation of the firm's long-serving boss, Maurice “Hank” Greenberg, as chief executive.

Eidos, the British developer of “Tomb Raider” video games, received two separate takeover bids. SCi Entertainment made a £76.1m ($144.5m) all-share offer for the company; Elevation Partners, a Silicon Valley private-equity group offered £71m in cash.

Oracle agreed to pay around $670m for **Retek**, a developer of retail software, ending a two-month bidding war with SAP. Oracle raised its offer just a few hours after SAP, a German-based software developer, had bid $617m. Retek is deemed desirable due to increased demand from retailers for software that integrates sales with supply chains.

See article

The battle between **Verizon** and **Qwest** to purchase **MCI**, a telecom company, continued. Qwest raised its bid to $8.45 billion. Verizon continued to insist that its $6.75 billion agreement offered more security for MCI shareholders.

Surf's up

Quiksilver, a maker of surfing apparel, agreed to buy **Rossignol**, the world's largest maker of skis, for *euro*240m ($320m). Quiksilver wants to diversify its sporting-goods business beyond surfing and other aquatic sports.

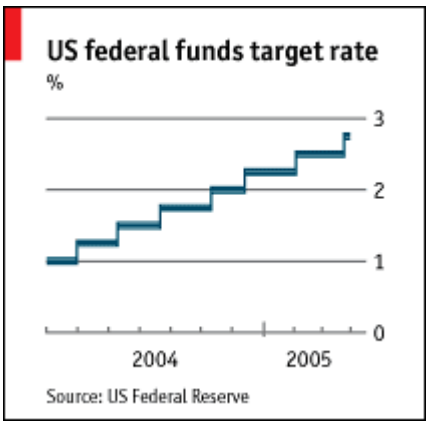
Siemens, a German engineering company, said it would acquire **CTI Molecular Imaging** in a deal worth $1 billion. CTI makes scanners used in the initial diagnosis of cancer and heart conditions. Siemens and CTI have operated a joint-venture since 1987, but Siemens has been looking to expand its medical-equipment business since rival General Electric's acquisition of Amersham, a medical-diagnostics company, last year.

ABB, a Swiss-Swedish engineering group, agreed to pay an extra $232m (in addition to a previously announced $1.2 billion) to settle its **asbestos lawsuits** in America. A court rejected the initial amount last year; the new deal is subject to approval by 100,000 plaintiffs and there is still a risk of further appeal.

A measured response

As expected, America's Federal Reserve put up its key **interest rate** by one-quarter of a percentage point to 2.75%. It also warned that inflationary pressures had picked up.

See article



Economist.com OPINION

Asia's security

China and the key to Asian peace

Mar 23rd 2005
From The Economist print edition

Whether first or among equals, what sort of player will China be?

CLAIMS that this would be the “Pacific” century were being made long before the Atlantic-dominated one had ended. East Asia's economic dynamism, its widening prosperity and—bar a few awkward hold-outs—its strengthening democracies would all seem proof, so far at least, of that potential. But will this fast-changing region be increasingly China-led, as some (especially many proud Chinese) now expect and others fear? And will it turn out to be any less strife-torn—potential conflicts loom over Taiwan, North Korea's nuclear activities, and rocks and reefs of disputed ownership thought to lie atop rich energy finds—than a Europe that for decades in the last century was the battleground between competing powers and ideologies? As first among equals or just one among them, how China chooses to handle its growing influence will determine whether East Asia remains stable enough to continue to prosper, or stumbles back into rivalry and conflict.

China is no longer shy at counting itself among the world's great powers. Its seemingly insatiable economy drives its diplomats ever farther afield in search of new relationships to bolster trade and secure raw materials, in Africa, Central Asia, the Middle East and Latin America, as well as in Europe and North America. Yet, for all China's modern-day market magnetism, a claim to regional leadership in East Asia will long remain premature for two broad reasons.

The first is that China's impressive economic growth hides a multitude of problems, including increasingly resented disparities between rich and poor, rampant corruption and capricious party rule—as hundreds of thousands of local protesters in recent years have demonstrated, quite literally, out on the streets. Should the economy falter for any reason, China's political stability is far from assured. And as the region's biggest anti-democratic hold-out by far, come a crunch China's policies are not going to be driven by a concern for the greater good, whether of the Chinese people or the region as a whole, but by what is good for maintaining party control.

That makes it harder to bet with confidence on a stable future for East Asia and the Pacific, not just because China itself may face internal upheaval, as it last did in the Tiananmen Square protests in 1989, but because an authoritarian, anti-democratic China will always be less easy for the neighbours to rub along with. Even those in awe of the China market are far less enamoured of China's growing military muscle. Hence the second reason why predictions of China's regional primacy are likely to be overdone: they will be contested energetically both by Japan, China's natural local rival (see article), and by the United States which, while not an East Asian power by geography, is very much an Asia-Pacific power and one with no intention of pulling either its troops or its influence back across the water.

The region is doing better at managing these rivalries than it once did. It may still lack binding multilateral alliances, like NATO or the European Union, that are now helping to stabilise and integrate the fledgling new democracies of central and eastern Europe (and in some ways even a prickly Russia too). But these days there are plenty of opportunities for the neighbours and interested outsiders to talk over their problems, including in regular bilateral, multilateral and region-wide summits. For all the glad-handing of recent years, however, and excited talk of a new free-trade area to link the economies of South-East Asia with those of China, Japan and South Korea, there is something lacking.

China refuses, despite all that is at stake, to discuss the really difficult security problems in the way that it now defends its corner on trade and other issues. Yet it is over the future of a democratic Taiwan and the damage being done by a nuclear-arming North Korea that China's true intentions will be tested.

Coddling only dictators

Whatever other benefits China has since drawn, it first joined the various regional talking shops in an effort to shut out Taiwan, which China claims as its own. Those entities it has joined are now in effect barred from discussing the matter. Meanwhile, China's military modernisation is clearly geared to pressure—even coerce—Taiwan into accepting the view that the only future for the island is reunification with the mainland. The anti-secession law recently rubber-stamped by China's parliament sets no deadlines, and China insists it will explore peaceful avenues first. But the law is clearly meant to provide a quasi-legal basis for more forceful action, should China's leaders so choose.

A China where nationalism has largely replaced communist ideology as the party's rationale for clinging to power has no patience for Taiwan's developing democracy—the first in 5,000 years of Chinese history—or the wishes of its people. So far it has not acted on its threats (though it rehearses them regularly in military exercises), in large part because of the calculation of the risks it would run in doing so, the chief one being to draw in America, which is committed to help Taiwan defend itself if attacked.

But that leaves open the possibility that this calculation may change as China's economic and military strength increases. All the more reason for European governments, who benefit hugely from the trade and investment made possible by East Asia's current stability, but who take no responsibility for its upkeep, to think again about lifting their arms embargo on China, or find ways of replacing it with clear understandings that ensure no harm is done to the interests either of America or Japan, the two countries who would bear the brunt should conflict break out.

The Europeans' instinct to engage China is not wrong. But it is dangerously naive to expect such engagement in trade and technology to affect China's calculation over an issue where nationalist emotions run so high. Is it equally naive to rely on China, as America has been doing, to put pressure on North Korea to give up its claimed nuclear deterrent?

In public at least, China chooses to believe North Korea when it says that it has no illicit uranium-enrichment programme, as America has claimed. But then it overlooks North Korea's other claim: that it has nuclear weapons anyway and is busily building more. That China is engaging in diplomacy on the issue at all is to be welcomed. But it balks at leaning on the recalcitrant North to return to the negotiating table.

The motives of North Korea's regime are not hard to read: it wants both to hang on to its nuclear weapons, and still get enough aid from China (which also supplies most of its food and energy imports) and South Korea to fend off American pressure. China's motives are more complex. It

wants to avoid a regime collapse, which could dump a mass of refugees across its border. And it resists in principle the imposition of sanctions (as it has been doing recently at the United Nations over Sudan) for fear that someday its treatment of Taiwan will attract similar foreign “interference”.

Yet just as conflict between China and Taiwan would do untold damage, so North Korea's nuclear ambitions, unless curbed sharply and soon, could set off a chain reaction that could militarise alarmingly the enduring rivalries of East Asia. In both cases, East Asia's fate is largely in China's hands.

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The United Nations

Kofi Annan's reform plan

Mar 23rd 2005
From The Economist print edition

Some good ideas, but no revolution in the running of the world

Get article background

AFP

TO HEAR Kofi Annan, the reforms he recommended this week are some sort of make-or-break last chance to repair the United Nations. On this, however, the UN's secretary-general is surely wrong. Of two near-certainties about the future of the organisation, one is that it will continue to exist, not least because most big powers, including habitual critics such as the United States, will continue at times to find it useful. For example, the Americans' failure two years ago to win the Security Council's authority for war in Iraq has done nothing to stop them wanting now to refer Iran's nuclear cheating to the same council. The other certainty is that no reforms, however well-intentioned, will turn the UN into the perfect instrument millions of people seem to want—one capable, that is, of ordering international relations so that all states obey the same rules, and especially rules that govern the use of force.

That was indeed the high hope of the UN's founding fathers after the second world war. On paper, the UN charter, which all its members have signed, prohibits any country from threatening or using force except in self-defence if they come under attack, or in the event of the Security Council having called for the use of force “to maintain or restore international peace and security”. Fat chance. Countless wars since 1945 have taken place outside these rules—including, most lawyers say, the American-led war against Saddam Hussein. By the same token, the UN has failed often to intervene with force when it should have. Until now, for example, and despite the calamitous precedent of the Rwandan genocide, the Security Council's response to the uprooting and slaughter of tens of thousands of people in the Darfur province of Sudan has been to issue pious resolutions and wring its hands.

Some of Mr Annan's reforms are designed expressly to address these failings (see article). Possible remedies include adding new permanent members to the Security Council to make it more representative, and making the rules on using force more flexible, so that an attack does not have to be under way or imminent before self-defence can be invoked; the council could also respond to “latent” threats. He wants its members to reach a “common view” now on how, in future cases when it is asked to endorse military action, it will weigh the seriousness of the threat, the proportionality of the response, whether the action was likely to succeed, and so forth. He also wants to make it easier for the council to authorise forceful intervention for humanitarian purposes, by embracing a collective “responsibility to protect” for cases where people's rights and needs are not protected by their government.

These ideas have been put together in good faith by experienced diplomats. They deserve a

hearing. And yet they do not—indeed cannot—solve the underlying problem. To see why, just ask what would have happened if the debate that took place in the Security Council before the Iraq war had taken place in an expanded council applying Mr Annan's new principles. The answer is: the same thing. The permanent five did not fall out over Iraq because they could not agree on the rules. They fell out because America and Britain claimed to have a different view from Russia, France and China about precisely the questions Mr Annan would like them to pose in future: the seriousness of the threat, proportionality, chances of success and so on. Nor, of course, would embracing a “responsibility to protect” ensure UN intervention in a future Darfur. The council could sanction military force right away (as it did, after the fact, when NATO intervened in Kosovo) if its members had the political will. It is the absence of that will, not some legal quibble, that is holding them back now.

Improvable, not perfectible

None of this means that Mr Annan's ideas ought to be rejected, or that the UN is not worth improving. Why not admit the likes of Germany, Japan, Brazil and India to permanent membership of the Security Council? Yes, please end the nonsense of dictatorships like Libya chairing the Human Rights Commission. The UN should indeed call the intentional killing of civilians terrorism, even if the motive—as in Chechnya and the Palestinian territories—is national liberation. And it would be wonderful if Mr Annan's proposal to buy out some of the UN's existing staff ended up producing a secretariat that was selected on merit rather than nationality.

As for the use of force, better by far when this can be sanctioned by the Security Council in accordance with the charter. But there will still be times—Kosovo, Darfur, arguably Iraq—when the council chooses to withhold its approval but a country or group of countries will nevertheless be right to take armed action, either in self-defence or for humanitarian purposes. Short of the creation of world government, no amount of legal ingenuity is ever going to change that.

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Fear of technology

The shock of the new

Mar 23rd 2005
From The Economist print edition

New technologies often provoke unfounded fears. But history offers a lesson or two

IT MAKES planes fall from the sky! It causes explosions at petrol stations! It gives you cancer! It helps terrorists! What is this terrible device? Why, the mobile phone of course, which is simultaneously the most successful digital device on the planet (1.7 billion users and counting) and the origin of all sorts of myths and scare stories.

Mobile phones do not make planes crash: on a typical transatlantic flight, there are a dozen or so left on by mistake. When was the last time someone tried to hijack a plane by threatening to turn on a phone? Their use in the air is banned because it would interfere with mobile networks on the ground, though this has now been solved, and in-flight calling will be possible next year. What of explosions at petrol stations? These are mostly caused by static electricity; the ban on phones was introduced by overcautious oil firms in the 1980s, despite the lack of any evidence of danger. With the industry unwilling to withdraw its warning signs, the myth of phone-related explosions has taken on a life of its own (see article). There is no credible evidence for a link between mobile phones and cancer. It is true that terrorists use mobile phones. But they also use electricity and cars. Why single out phones?

On the face of it, there is a contradiction here: mobile phones are ubiquitous and indispensable, yet they have also given rise to a curious bundle of safety fears. But it is, in fact, quite normal for successful technologies to cause concern when they are first introduced. In the 19th century, people worried that telegraph wires were affecting the weather, or were a form of black magic. Trains were thought to cause nervous disorders. More recently, people have worried about the health effects of overhead power lines, microwave ovens and radiation from computer monitors—though years of research have failed to find evidence of harm. So the reaction to mobile phones is merely the latest example of a familiar pattern.

I just called to say...

As new technologies emerge and the pattern repeats itself, two things are worth bearing in mind. The first is that even when a technology is perfectly safe, the nature of scientific proof makes it impossible to verify. It is only possible to look for evidence of harm, and if none is found, there either is no harm, or it is necessary to look for it in a different way. Evidence that mobile phones are dangerous could still emerge, but so far they would seem to be safe. (Britain has taken an unusually cautious position, but that is because the British government is particularly wary in the wake of the mad-cow fiasco of the 1980s and 1990s.)

The second point is that all technologies have both good and bad uses. There is currently a debate

about whether it is safe to install mobile antennas in underground stations, for example, for fear that terrorists will use mobile phones to detonate bombs. Last year's bombs in Madrid were detonated by mobile phones, but it was the phones' internal alarm-clock function, not a call, that was used as the trigger mechanism. Nobody is suggesting that alarm clocks be outlawed, however; nor does anyone suggest banning telephones, even though kidnappers can use them to make ransom demands. Rather than demonising new technologies, their legitimate uses by good people must always be weighed against their illegitimate uses by bad ones. New technologies are inevitable, but by learning the lessons of history, needless scares need not be.

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International trade

An ill-timed spat

Mar 23rd 2005
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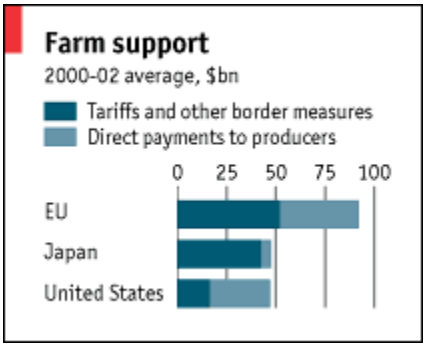
A transatlantic row (again) over aircraft subsidies could jeopardise the global trade talks



TRADE negotiators are masters of brinkmanship. And brinkmanship requires drama. So it should surprise no one that a long-running dispute between America and the European Union over civil-aircraft subsidies flared this week into a headline-grabbing row, featuring an acrimonious telephone conversation and mutual name-calling. This is not the first time they have clashed loudly and publicly over subsidies to Airbus and Boeing (see article). It probably won't be the last. But this latest episode of the saga comes at a dangerous time. Unless it is patched up quickly, the high-volume squabble could threaten the transatlantic leadership that is crucial to completing successfully the Doha round of global trade talks.

The Boeing/Airbus subsidy battle is the biggest commercial dispute between America and the European Union (EU), and one of the most intractable. Washington accuses the Europeans of illegally subsidising Airbus with cheap government loans to defray the costs (and limit the risks) of developing new civil aircraft. Brussels claims America also subsidises Boeing, but that these subsidies simply take a different form, such as state tax breaks and large defence contracts. While there is a worrying lack of clarity over considerable indirect aid to Boeing, the Americans are correct that Airbus, as market leader in passenger jets, is no longer an infant industry and ought to be weaned off soft government loans, which seem a clear breach of trade rules. Taxpayers in both continents would gain from an end to government mollycoddling.

The question is how to get there. Between 1992 and 2004 a bilateral agreement limited—but did not eliminate—the hand-outs, and defused political tensions. Last October, the Bush trade team changed course from negotiation to litigation, announcing it was going to file a formal complaint against Europe's Airbus subsidies at the World Trade Organisation (WTO). The EU promptly filed a similar case against America. In January this year, before any litigation began, both sides agreed to spend three months trying again for a negotiated solution. It is these efforts that are failing, raising the prospect of WTO lawsuits and the political temperature.

Tantrum test

Since this dispute is unlikely to be solved quickly, both America and the EU need to make sure it does not infect the rest of the trade agenda, particularly the Doha round of global trade talks. Ironically, just as it is turning up the volume on Airbus, the United States is offering reasons for optimism on Doha. The appointment on March 17th of Rob Portman—a senior congressman who commands bipartisan respect and has a background in trade—as America's new trade representative suggests Mr Bush is giving trade a high political priority. And Mr Bush's budget,

which proposes more than $5 billion of cuts in farm subsidies, suggests a new-found seriousness about disappointing the farm lobby. Domestic budgetary pressure is also being reinforced by WTO decisions: a recent ruling declared America's cotton subsidies illegal. These developments suggest that real progress on cutting farm support is possible.

For all these positive signs from Washington, the Doha round is still an uphill battle. In agriculture there has been far too little progress on tariff reduction, which will do a lot more to help poor countries than reducing subsidies in rich countries (see article). Technical negotiations in Geneva are bogged down over how to convert different types of tariffs to a common standard. Too many developing countries are keener to lambaste the farm-trade sins of rich countries than to open their own markets, whether for farm products, industrial goods or services. A meeting of the G20 block of developing countries last week was long on demands in agriculture and short on progress elsewhere.

There is not a lot of time left to break these logjams. Unless the negotiators make serious progress on the outlines of a deal by the time the world's trade ministers meet in Hong Kong in December, the chances of a successful Doha round look slim. Leadership from Europe and America is no guarantee of success, but without it failure is certain.

This is exactly why the latest public spat over Boeing and Airbus is so unfortunate. In January, when the two sides agreed to try to negotiate a solution, Peter Mandelson, the EU's trade commissioner, said that a serious falling out over the issue would affect the two sides' ability to “co-operate and collaborate” on the Doha round. Now that the negotiations on aircraft subsidies have once again stalled, Messrs Mandelson and Portman need to avoid that very threat.

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Euthanasia and politics

The sad case of Terri Schiavo

Mar 23rd 2005
From The Economist print edition

A ghastly dilemma which Congress and George Bush have only made worse

Get article background

EPA

EVEN by the desperate standards of a family tragedy that has now lasted for 15 years, the past week has been tumultuous. On March 18th, a state court in Florida finally ordered that a feeding tube be removed from Terri Schiavo, a woman who was severely brain-damaged in 1990. This represented a victory (if such a word can be used) for her husband, Michael, who insists she should be allowed to die, over her parents, Bob and Mary Schindler, who think she can recover.

Yet in a frantic weekend's politicking, which underlined the power of the religious right, the Republican Congress came back from holiday to pass a highly unusual bill giving Mrs Schiavo's parents the chance to appeal to a federal court. George Bush flew back from Texas to sign it at 1.11am on Monday. The Schindlers duly filed a request to a federal court for the feeding tube to be reinserted, pending their appeal that their daughter's constitutional rights had been infringed; but a federal district judge and an appeal court have both already turned this down, unpersuaded that their case stood a chance of success. Those decisions have also been appealed. But, without nutrition, Mrs Schiavo will die after about ten days.

To the Schindlers and many religious Americans, Mr Schiavo and the Florida judges and doctors who have backed him are little short of murderers. Tom DeLay, the House majority leader, calls removing the tube an act of “medical terrorism”. On the other side, Mr Schiavo has called Mr DeLay a “little slithering snake” and many liberal types have protested against Congress trampling over the legal system. The *Los Angeles Times* calls the new law “a midnight coup”.

What are the rights and wrongs of all this? The Schiavo case is especially difficult on two grounds: the patient's intent and her medical status. Mrs Schiavo did not make a “living will”—ie, a statement of what she would like to happen if she were subsequently to fall desperately ill but be unable to make her own decisions. Her husband claims she told him that she did not want to be kept alive by artificial means; but he did not reveal this immediately, and he has spent the past decade with another woman with whom he has started a family. As for her condition, Mrs Schiavo—whose heart suddenly stopped in 1990, cutting off oxygen to her brain—can breathe by herself, and her parents have also produced a video showing their daughter appearing to communicate with them.

Yet there are also hard facts to consider—facts that the decade of legal battles, encompassing 19 judges in six courts, seem only to have reinforced. First, under American law it is Mrs Schiavo's husband, not her parents, who is now responsible for her. Second, despite the heart-rending video, court-appointed doctors who have looked at her concur that she is indeed in a “persistent

vegetative state". When she opens her eyes and smiles these are, alas, just reflex actions, they say. She is not aware, she cannot communicate and she will not recover. Due process has been followed. That is why the Supreme Court has refused to hear the case three times, and also why the appeals were dismissed this week.

First, do no harm

So why did Congress intervene? Mr Bush says that in cases like Mrs Schiavo's, it is wise to "always err on the side of life". That is surely correct: in the absence of a living will, the presumption ought to be that someone would prefer to live rather than to die. But such a right cannot be unqualified: should she be kept alive in the minuscule hope of a recovery for 20 years, 50 years? In the end doctors, governed by the law and the judicial system, do have to take such decisions. Furthermore, Mr Bush and Congress need to take account of the costs of their intervention, particularly when it comes to setting all sorts of unfortunate constitutional precedents.

The Schiavo bill is an extraordinary piece of federal interference in the judicial system. In order to get it passed, the Republicans had to limit their bill to Mrs Schiavo; but it will surely justify a surge of similar heart-breaking requests. The bill also specifically tells the federal judge to examine the case "notwithstanding any prior state-court determination". The Republicans, who are usually stern defenders of states' rights, may come to rue the day when they urged the federal system to ignore them.

In short, for a mixture of motives—some sincere, some political—the Republicans have over-reached themselves. In the meantime, Mrs Schiavo's case should remind any Americans who do not want to put their families through a similar ordeal to start writing their living wills right away.

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Economist.com OPINION

Credit-rating agencies

Three is no crowd

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From The Economist print edition

Regulators need a new approach to an entrenched industry

IT IS unjust to compare the plight of General Motors (GM), America's largest carmaker, to that of Enron, the energy giant brought down by fraud. And yet for big credit-rating agencies, it could be argued that both represent a sort of failure. The agencies rated Enron's bonds as investment-grade—safe for many pension funds, that is—until shortly before the firm collapsed. They also failed to flag problems at WorldCom and Parmalat before they went bankrupt. Now the agencies face questions about slow action on GM. The market reduced its bonds to junk status (albeit because of poor profits, not fraud), below the level at which the agencies had assessed them, even before GM's profit warning last week.

Regulators and investors around the world will closely watch the dance between GM and the raters. Moody's, Standard & Poor's (S&P) and their growing rival, Fitch, are among the most powerful voices in today's capital markets (see article). Moody's alone assesses the likelihood of default on $35 trillion of debt. Mostly the raters' record is good, but on occasion they are quite wrong. Despite the agencies' defence that they cannot spot fraud, regulators are scrutinising them anew in light of the Enron and WorldCom failures.

There is plenty to be concerned about. The big agencies' business model has a built-in conflict of interest. Ratings are paid for by the issuers of bonds and other forms of tradable debt, not by investors who use them. Can they be completely independent of the firms who pay the bills? The agencies insist they can. Internal firewalls bar analysts from fee discussions, they say, and each issuer accounts for a tiny proportion of their revenues. Their businesses stand or fall on their reputation for independence, and they would never risk that.

This is all true. And yet there are unsettling parallels to the disgraced auditing industry, which made the same arguments. The rating agencies are starting up consulting businesses which advise on matters that might affect an issuer's rating. Auditors were forced to spin off consulting arms a few years ago. Also like auditors, credit-rating agencies in effect constitute an oligopoly. The big three are globally dominant and able to charge hefty fees. Issuers can do little but grouse quietly, because they need the ratings in order to issue bonds.

What should regulators do about this? Officials have few statutory powers over credit-rating agencies. They can take action against fraud but have no ability to monitor ordinary activities, as they do with banks or mutual funds. No one wants heavy regulation. The world's securities regulators last year put forward a voluntary code of conduct, and European regulators are expected soon to endorse such self-policing as well. America could go further. The Securities and Exchange Commission (SEC) wants lawmakers to give it the authority for monitoring the agencies

if questions arise. Congress should agree to this. If it does, the SEC should scrutinise the agencies' consulting operations, and perhaps seek to ban them.

Open the doors

But even without increased authority from Congress, the SEC could take an easier step. Ironically, the sole power it now has over raters is to reinforce their oligopoly. Thirty years ago the SEC started designating certain firms as “Nationally Recognised Statistical Rating Organisations” (NRSROs). Many laws and regulations refer to NRSROs, and some pension funds and mutual funds limit their purchases to bonds rated investment-grade by agencies with that designation. This makes it especially hard for newcomers to break into the ratings business.

The SEC sees the problem. In the past two years it has recognised two more agencies, bringing the grand total of NRSROs to five. The SEC also wants to define its ungainly acronym for the first time. That is useful; but why not abolish it altogether? More competition would not result immediately. Entering the rating business will remain difficult for any newcomer because of the need to build a reputation among issuers and investors. Still, doing away with this artificial designation would cause a rethink of old investment prospectuses and regulations, which lock in the importance of a privileged few. New agencies could rise in specialist fields. That might make the big three strive even harder to maintain their own reputations.

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Letters

Mar 23rd 2005
From Economist.com

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Not in tango

SIR – Argentina's current determination to pay only what it wants to pay, except to those creditors whom it deems expedient to pay, is disdainful of the law and disdainful of the people who believed the country's promises to pay ("A victory by default?", March 5th). Yet you and the IMF take a scornful tone towards creditors, particularly the not-so-small group who may not want to sit still for the shearing. Argentina was lent vast sums over the years. Yet the IMF exhibits no curiosity about where this money went. Why are the IMF and its cohorts always permitted to elbow themselves to the front of the creditor line when things go south? Perhaps they should be repaid only after foreign private lenders have been paid. That would make the IMF much more cautious before it comes barrelling in with its often-kooky prescriptions and huge new loans.

You also criticise Elliott Associates for its Peru investment. But Elliott rejected Peru's debt restructuring because we believed (correctly, it turned out) that Peru didn't tell the truth about its finances, understating its foreign- currency reserves and repurchasing half of its defaulted bank debt at deep discounts. Peru's obstinacy (including its refusal to recognise Elliott as a creditor) forced the case to a court judgment, after years of litigation. During that time, we tried repeatedly to settle with Peru—at far less than full payment. We never jeopardised their restructuring, which was completed years before our judgment.

Paul Singer
Elliott Associates
New York

SIR – It will be the emerging- market economies who foot the bill for Argentina's spectacular triumph over its foreign creditors. In the event of a future debt default, domestic political considerations will force the affected country to be as hard-nosed and tight-fisted with its foreign creditors as was Argentina. For example, if Brazil were to default, could President Lula politically agree to settle with external creditors at more than the 35 cents extracted by Argentina? External bondholders will now be more skittish at the first sign of future emerging-market trouble and less likely to give the benefit of the doubt than they were before; foreign creditors will expect to be compensated more adequately for running the risk of a repeat of an Argentine-like situation.

Desmond Lachman
Washington, DC

Race education

SIR – I welcome the seriousness with which you take the catastrophic performance of Afro-Caribbean boys in British schools ("Black marks", March 12th). However, your argument that the

problem is really one of poverty rather than race or gender (as very poor white boys who receive free school meals do slightly worse than very poor black boys) is flawed. Even if we accept the outdated idea that receipt of free school meals is a proxy for poverty, fewer than 10% of children in Britain fall into this category; what your own figures tellingly demonstrate is that better-off Afro-Caribbean boys are twice as likely to fail as their white peers (you also skimp the fact that black girls do nearly twice as well as black boys).

Moreover, the real-life evidence contradicts your conclusion. One South London boy's school has raised the exam performance of its black students from 25.6% to 44.4% in two years with targeted action. And a small charity, the Windsor Fellowship, has put over 500 minority children through exactly the sort of programme to which you so object. In 2004, 100% of its London students achieved five good exam passes compared to an average of 27.3% for all black boys.

Trevor Phillips
Commission for Racial Equality
London

SIR – It is true that race has nothing to do with children failing in school, whether they are black or white. But the old refrain that "the real problem [is] that the school system fails the poor" is wrong and destructive. It creates a cultural climate where failing students refer to the same built-in excuse: if I attend a failing school, then what chance do I have? Instead, we should create a climate where people believe that school is a place that, if you work, you will learn. Community leaders have an obligation to their children to instil the moral obligation to work hard. Making schools the scapegoat is a waste of time and a disservice to our children (I taught in minority schools for 41 years).

Elliot Kotler
Ossining, New York

God's law?

SIR – The debate over separation of church and judiciary is mystifying ("Go down, Moses?", March 5th). The secular laws that are held sacred and must be protected from religious contamination are the modern heirs to a tradition of jurisprudence that is, in reality, Judeo-Christian in origin. The Ten Commandments, as the essence of that covenant, are thus by far the most fitting decoration of any courthouse in the West. When well-intentioned secularists argue for their removal, they invest the law with a mythic "natural" pedigree that puts them beyond cultural specificity and confuse secular truth with what is, in fact, religious in origin. In this light, secularism and religion are two faces of the same social coin, and our "secular" laws bind them.

Peter Harrington
Peterborough, Cambridgeshire

Regional dynamics

SIR – You argue in your survey on India and China that China has lapped India mainly on account of China's farsighted and bold economic reforms ("The tiger in front", March 5th). While this may be true, you ignore two external factors. First, South Asia (excluding India) is poorer than India, so India lacks a viable market as well as a source of investment in its neighbourhood. China, in contrast, enjoys large trade and investment flows from its rich East Asian neighbours, such as Japan (the world's second-largest economy) and South Korea. These are in addition to ethnic Chinese investments from Hong Kong, Malaysia, Singapore and Taiwan. Second, China's permanent seat and veto in the United Nations Security Council is a valuable bargaining chip when it engages places like Sudan and Iran in economic diplomacy. America cannot ignore a veto-

wielding China in resolving issues such as Taiwan and North Korea. Witness the favourable trade terms that have often been offered as a carrot by the United States and the European Union to a potentially truculent China.

Avimukt Dar
Delhi

Robotic past

SIR – You dated the inception of the idea of humanoid robots almost three centuries after the fact ("Humanoids on the march", March 12th). René Descartes wrote of men that could be "hats and cloaks that might cover artificial machines, whose motions might be determined by springs". Written in 1641, the idea of robots existed at least 280 years prior to Karl Capek's play.

Paul Mahler
Denver

SIR – In 1737 a Frenchman, Jacques de Vaucanson, developed an honest-to-goodness flute-playing android; the following year he created a mechanical duck that could flap its wings and eat grain.

JACK BLOCK
San Diego, California

ONLINE ARTICLES

The following correspondence refers to articles published only online

Balkan war crimes

SIR - You say that Serbs view the war-crimes tribunal in The Hague as a "kangaroo court" ("Justice arrives, slowly but steadily", Economist.com, March 9th). In fact, by and large Serbs do not accuse the court of lacking adjudicative safeguards to prove one's innocence. The institutional bias of the tribunal, say I and most of my fellow Serbs, lies with the Office of The Prosecutor [Carla Del Ponte], which until recently was interested mostly in crimes committed by Serbs, leaving high-profile Croatian and Muslim criminals with little fear of accountability.

While the recent indictment of Mr Haradinaj begins to redress that imbalance, the indictment of Generals Delic and Gotovina only mask the simple fact that both Croatian President Tudjman and Bosnian President Izetbegovic were allowed to die of natural causes, without ever worrying about criminal prosecution for their wartime acts. Justice could only have been served if those two had shared a cell with Slobodan Milosevic. Human mortality and the ethnically selective prosecution of Ms Del Ponte and her predecessor have ensured that the tribunal will never be seen as legitimate in Serbia.

Jovan Ivosevic
Los Angeles

Sinn Fein and the IRA

SIR - In your article "Unwelcome St Patrick's Day guests" (Economist.com, March 15th) you refer to the end of the IRA's guerrilla campaign. Since when did the IRA become a guerrilla

organisation? Having lived in England as the IRA neatly placed bombs into rubbish bins alongside busy shopping areas I can assure you it was a campaign of terror. Perhaps you were trying not to offend the sensitivities of our American cousins, but the IRA are terrorists, and have been so for a very long time. If that means Edward Kennedy and his like-minded friends and colleagues are deemed to support terrorism, then so be it.

Garry Trigger

Fighting terror

SIR - I am troubled by your insistence on referring to the international fight against terrorism between sarcastic quotation marks ("A misguided strike at the rebels' heart", Economist.com, March 9th). Do you deny that military operations are ongoing against terrorist forces across the globe? As long as your despicable use of "war on terror" finds itself in the non-opinion sections of your publication, you ought to be honest and refer to your news "analysis" as "propaganda for terror-sympathising Eurotrash".

Ryan Horsley
Los Angeles

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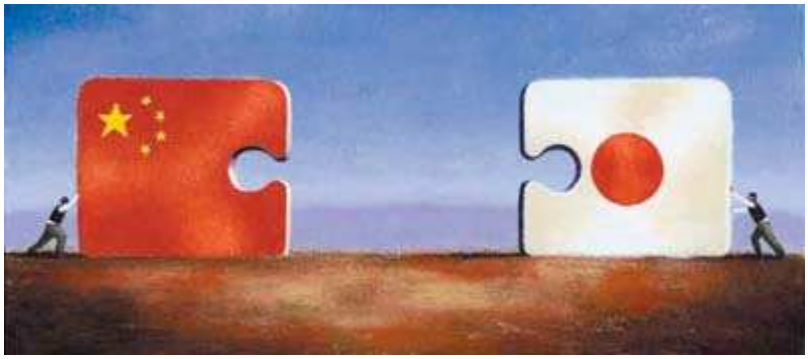
Economist.com SPECIAL

China and Japan

So hard to be friends

Mar 23rd 2005
From The Economist print edition



China and Japan are increasingly inter-linked commercially. But their age-old political animus is reviving too

Get article background

IF YOU want to think that Asia's two greatest powers are edging closer to one another, you can find plenty of supporting evidence. Last year, China overtook America to become Japan's biggest trading partner. Japan has been China's biggest trading partner in three of the past four years. Trade rows, common in the 1990s as Japanese producers grew afraid of Chinese competition, have virtually disappeared. The two economies are increasingly integrated, with cheap Chinese goods delighting Japanese shoppers and sophisticated Japanese equipment humming away in Chinese factories.

Moreover, China and Japan are taking part in the effort to launch an East Asian Community, bringing together South-East Asia with themselves and South Korea. They share an interest in preventing the dollar from declining rapidly and in keeping the exchange rate between the yuan and the yen fairly stable, and are therefore the two biggest buyers of American Treasury bonds. They also take part in broader regional co-operation between central banks and finance ministries under the so-called Chiang Mai agreement.

Until quite recently, some speculators and conspiracy theorists were even wondering whether China and Japan might in future make common cause in global affairs. Sure enough, defence ministry officials from the two countries, and even senior soldiers, have held cordial meetings with one another. Until the late 1990s, Chinese leaders often spoke admiringly of Japan as an economic model. And, most important of all, China and Japan have been willing collaborators in the American-led effort to persuade North Korea to relinquish its nuclear-weapons programme, through six-party talks (the other parties are Russia and South Korea). When Condoleezza Rice, America's secretary of state, made her Asian tour last week, she sent essentially the same message to North Korea from both Tokyo and Beijing.

Yet there has recently been a lot more evidence for the opposite view, namely that tensions are

rising again between two of the 20th century's bitterest rivals. Last November, a Chinese submarine sailed into Japanese waters near its southern islands in an apparently deliberate attempt to test its detection systems, a tactic reminiscent of the Soviet navy's during the cold war. Japan, noticeably proud that its surveillance did indeed detect the sub, demanded—and got—an apology.

Last month, Japan deliberately made its position on Taiwan less ambiguous by declaring, in a joint statement with its American ally, that Taiwan is a mutual security concern. This not only meddled in China's internal affairs, in China's view, but also took Japan a symbolic step further past its constitutional restrictions on military action. In December, Japan's National Defence Programme Outline had described China itself as a source of “concern” for Japan. That concern was reinforced in early March by China's own announcement of a 12.6% rise in official defence spending to almost 250 billion yuan ($30 billion), a figure believed in Japan to understate true spending by 30-50%.

With community-building under way in East Asia, presumably the two countries' leaders can keep a lid on such tensions? Not really: although many officials, right up to the level of foreign ministers, have taken part in such co-operative efforts, that is as senior as it gets. There has been no official visit to China by the Japanese prime minister, Junichiro Koizumi, since October 2001, and none by the Chinese president to Japan since 1998, when Jiang Zemin went. Any top-level meetings have been brief affairs held on the margins of regional or global summits. No visits are currently being planned. It is the longest hiatus since the normalisation of diplomatic relations between China and Japan in 1972. The apparent reason: the events of 70 years ago when Japan invaded China, and Japan's unwillingness to show contrition about them in the manner demanded by China.

The list can go on. China and Japan have long argued over islands at the southern end of Japan's chain, known as the Senkaku in Japan and Diaoyu in China. Japan has recently assumed ownership of a lighthouse built on one by a nationalist group, in order to underline its claim, while China has been sending research and test-drilling ships into what Japan claims as its exclusive economic zone, north-east of the islands, in the hope of getting a share of oil and gas deposits there or, say some Japanese politicians, to map the sea bed for Chinese submariners.

On October 25th last year a meeting was held between Chinese and Japanese officials to try to launch negotiations about those marine resources, but it was a throwback to chillier days: it lasted ten hours, consisted only of prepared statements from both sides, and ended without agreement even on a date for a further meeting. The Japanese ruling party's committee dealing with this issue is now considering a proposal that Japan should send in its own test-drilling vessel. As such a vessel would in turn have to be protected by the Japanese navy and coastguards, that would be both a signal that Japan means business and a risk that a confrontation might follow.

The rise and rise of great powers

Should outsiders be worried about this increased scratchiness in East Asia, or comforted by the notion that economic integration will in the end restrain political hot-heads? In reality, these competing views are two sides of the same coin. As both countries have become richer, more

powerful and more important as trading partners, so they have become natural rivals for primacy within their region.

China and Japan have been rivals for the best part of a millennium. For much of that time, China had the upper hand. But from the mid-19th century until the 1990s it was in decline, both economically and politically, while Japan was in the ascendant, establishing colonies in Taiwan and Korea at the turn of the 20th century and then invading China itself in the 1930s. As Japan grew into an economic giant in the 1960s and 1970s, China was economically weak and preoccupied with the mayhem of its Cultural Revolution.

For the past three decades, since Deng Xiaoping began to convert China's economy from central planning to market-led capitalism, China has been on the up again. Trade with this rapidly growing and changing place is now ever more important to all countries, but especially to its neighbouring economic giant, Japan, and especially since Japan's stagnation in the wake of its stockmarket crash in 1990. China's rise, however, has also reinforced old worries on two scores: China's hunger for natural resources, including its territorial claims in the seas surrounding it, and its ability to modernise its armed forces, thus altering the strategic balance in the region and producing jitters in Japan.

Most of the world's existing rich countries combine a slavering ambition to profit from China's growing economy with a certain nervousness about competition from Chinese producers. Japan, at least currently, shows little of that commercial nervousness. The two economies are strikingly complementary. The Chinese manufacturers that fill Wal-Mart with their cheap goods and worry rivals in India and Mexico are too low-tech to cause much concern in Japan. That country's firms continue to dominate the higher-technology end of industries such as cars, machine tools and electronics. Kwan Chihung, an economist at the Nomura Institute for Capital Markets Research in Tokyo, has tried to work out how many of China's exports compete with Japanese output, compared with the overlap with other Asian producers. The table shows his conclusions: only a fifth of China's exports are in categories that compete with Japanese ones.

That could change in coming years, as Chinese manufacturers gain in sophistication. But China's ultra-cheap labour is likely for some time to tilt those firms towards labour-intensive processes and away from the more capital- and research-intensive ones favoured in higher-cost Japan. Meanwhile, rising demand in China, both from industry and consumers, is bringing huge benefits to Japanese firms, both in lower, metal-bashing trades and in higher-value businesses. About one-third of the growth in Japanese exports in the past two years has been accounted for by shipments to China and Hong Kong. Japanese firms' direct investment in China has grown too, reaching about $3.3 billion in the year to March 2003, though that was barely 6% of China's total inward foreign direct investment of more than $50 billion.

Yet while the two economies are complementary in terms of output, they are clearly competitors for resources. Last year China overtook Japan to become the world's second-largest importer of oil, after America. Increasingly, the countries are rivals for secure long-term supplies of oil and gas. Last year, for instance, they were at odds over whether Russia should build a new oil pipeline to China's north-east, or to its coast for shipment to Japan. That decision went Japan's way.

The sea-bed off Asia is home to numerous disputes over the ownership of various rocks and islets, all made potent by the prospect of oil and gas being found beneath the ocean. Japan has a dispute with South Korea over an island that Japan calls Takeshima (see article) and China is mixed up in quarrels with several South-East Asian countries over the Spratly Islands in the South China Sea. All are potentially serious. But the ones between Japan and China risk becoming especially fractious, for they mix greed with fear, or at least national pride: a feeling, widely held on both sides, that what is at issue may be not just a few barrels of oil, but the whole future power balance in Asia.

History's burden

Listen to scholars, pundits and officials on both sides and you get the sense that today's tense relations between Japan and China stem both from the nasty history of the 20th century and from expectations or concerns about the shape of the 21st.

Most simply, this is expressed in mistrust. In both China and Japan these days opinion towards each other is quite varied; China no longer has a single party line and the Japanese debate has always been lively. The extremes on both sides are striking, however. Gao Heng, a scholar at the usually moderate Chinese Academy of Social Sciences, claims that some members of the Japanese government want to recolonise Taiwan; to that end, he says, Taiwanese military personnel are secretly being trained in Japan. Mr Gao, it should be noted, was born in 1939 while his parents were hiding from the Japanese in tunnels.

More complementary than most

Asian countries' competition* with Chinese exports to US, %

	1990	1995	2000	2003
Japan	3.2	8.5	16.2	21.9
South Korea	24.8	28.4	37.3	40.9
Taiwan	27.5	40.2	49.5	68.8
Singapore	14.7	19.2	34.8	40.1
Indonesia	48.5	59.7	68.0	66.8
Malaysia	37.4	36.8	47.3	65.0
Philippines	41.9	45.6	45.9	60.7
Thailand	36.4	47.5	55.7	69.8

*Value of exports to US from China in same product categories as country's exports, as % of country's total exports to US

Source: C.H. Kwan, Nomura Institute of Capital Markets Research

On the other hand, your correspondent recently heard a senior Japanese businessman give a speech (off the record) at a conference in Nagoya in which he described China's territorial ambitions in East Asia, and particularly its hunger for resources, as being akin to Hitler's *Lebensraum* policy in the 1930s, stating that it must be resisted at all costs. Had any Chinese been present, they would no doubt have reminded him of Japan's own hunger for resources during that decade.

Such pride and suspicion can also be found in popular protest and populist politics. Last August, a Japanese victory against China in the final of the Asian soccer cup in Beijing culminated in hooliganism by young Chinese supporters in which Japanese flags were burnt and a Japanese diplomatic car was vandalised. Such protests have also occurred whenever Japan's prime minister, Mr Koizumi, has made what have become his annual visits to the Yasukuni shrine in Tokyo, which is where the souls of all Japan's 2.5m war dead since 1853 are symbolically interred, including those of 14 class-A war criminals executed in 1948 after the Tokyo war-crimes trial. A group of top Japanese businessmen pleaded with him last year to stop the visits, claiming that their sales in China were being damaged. He refused angrily, saying that Japan's war dead must be honoured. But there was another implication, too: that Japan must no longer back down in the face of Chinese pressure. Chinese computer hackers have recently disabled Mr Koizumi's website.

China is not the only one of Japan's former colonies to protest about Mr Koizumi's visits to Yasukuni. South Korea does too, and historical memories still rankle in that country. But neither the protests nor the memories stand in the way of regular top-level summits between Japan and South Korea, as they do between Japan and China. Nor does South Korea continue to demand further and deeper apologies from the Japanese, as China does. In 1998 a visit by President Jiang Zemin to Tokyo was marred by Japan's rejection of Chinese demands for an apology that went beyond language accepted shortly beforehand by President Kim Dae-jung of South Korea. Although Japan certainly has a great deal to apologise for over the conduct of its imperial army in China in the 1930s and 1940s, its prime ministers and the emperor have made official apologies on 17 occasions since diplomatic relations with China were resumed in 1972.

A simple analogy for Japan and China in Asia is, of course, Germany and France in Europe. There has been no scene in Asia equivalent to Helmut Kohl and François Mitterrand holding hands at Verdun in 1984, saying “Never again”. Nor is any such scene likely as long as the countries'

leaders refuse to meet. But there has also been no officially sanctioned equivalent of the Franco-German history textbook commission that, soon after 1945, assembled scholars to try to agree on a common account of the two countries' bitter history.

Japanese textbooks have been subject to a quarter-century of legal and official wrangles, particularly over the words used to describe the invasion of China (just an “advance” in some Japanese nationalists' books) and the notorious Rape of Nanjing in 1937 in which thousands, tens of thousands, or hundreds of thousands (depending on the historian) of unarmed Chinese were killed by the Japanese army. But Chinese textbooks are controversial too for their stridently anti-Japanese content. The tone was heightened, the Japanese say, in the early 1990s, when the Communist Party wanted to use nationalist fervour to dissipate opposition after their own Tiananmen Square massacre of unarmed Chinese in 1989. Hence the fact that many young Chinese seem just as anti-Japanese as their parents.

Defusing the tension

Tensions between these two great powers, both fully conscious of their economic and political interests and of the weight of history, probably cannot be defused altogether for as long as the two countries' political systems remain so different, with China communist and Japan a democracy. That is also likely to put a strict limit on the East Asian Community's chances of becoming something like the European Union. Such entities require at least some willingness to share sovereignty, which China for the moment will not consider.

Tensions might be defused, though, if both governments agreed to seek ways to make history, and thus nationalism, less of a flashpoint. On the Japanese side, that really means a willingness to address two issues: the status of the Yasukuni shrine, and the question of compensation for the victims of war. On the Chinese side, it would require a willingness to sanction a joint textbook commission in which historians would be genuinely free to examine the two countries' history; a readiness to give up anti-Japanese propaganda; and a willingness to engage in serious negotiations about sea-bed rights.

A solution to the Yasukuni problem must almost certainly await a new Japanese prime minister in 2006, for Mr Koizumi has argued himself into a tight corner. He claims he must, on grounds of national honour, visit Japan's equivalent of America's Arlington National Cemetery. Yet he also claims that as Yasukuni has been, since the 1940s, a private religious institution, the government has no constitutional right to order it to change the status of the war criminals at the shrine. That is true, but it means that the solution should be to establish a genuine, government-run equivalent of Arlington or France's Tomb of the Unknown Soldier, at which prime ministers could pay homage without controversy.

The nub of the compensation issue is Japan's official contention that all wartime claims were settled in the 1951 San Francisco peace treaty. Yet, just as Germany has in recent years reopened questions of restitution for slave labourers, so Japan is likely to find itself under continued pressure to offer more comprehensive compensation, to forced labourers and wartime sex slaves, among others. Its problem, no doubt, is not only the potential breadth of the class of claimants, but also the current absence of a counterpart in China likely to negotiate in good faith.

Japan's own internal debate about its wartime motives and conduct certainly stands in the way of progress. In its pluralistic society, there are plenty who claim that Japan did little wrong in the 20th century. That minority view, though, gains strength when combined with a larger political feeling that in the face of Chinese growth and bullying Japan needs now to stand firm. Such bullying shows no more sign of easing than does the growth. Only once China stops trying to explore how far it can go, and instead decides to seek a rapprochement with its ancient rival, is

the tension likely to ease.

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Terri Schiavo

The misery goes on

Mar 23rd 2005 | WASHINGTON, DC
From The Economist print edition

AFP

Has America discovered a new version of Roe v Wade?

Get article background

IN SOME ways, the case of Terri Schiavo is simpler than would appear from the terrible questions that have convulsed America in recent days. Mrs Schiavo is in a persistent vegetative state: her cerebral cortex is destroyed. She must be fed through a gastric tube, but her condition is stable and she is not on life-supporting drugs. Her parents, Bob and Mary Schindler, are willing to take over care for her from her husband, Michael, who is living with another woman. Why should Mrs Schiavo not be handed over to her loving parents?

The answer from the Florida courts is not that her medical condition makes her death so inevitable that it would be merciful to speed it up. Nor is the answer that her death would be convenient to the husband who is her legal guardian (if that were so, husbands would be free to kill their wives). Nor is it, as Professor Robert George, a member of George Bush's Council on Bioethics, has suggested, that America has adopted a standard of “life unworthy of life” which means Mrs Schiavo can be legitimately killed (he used the Nazi term, *lebensunwertes leben*).

The main two reasons are that the courts, unlike Mrs Schiavo's parents, are satisfied that she will never recover, and, especially, that Mrs Schiavo herself said that she did not want to be kept alive in that condition. How do we know that? We don't, for certain. She left no “living will”. The information comes from her husband: he said in court testimony that before her accident 15 years ago, in specific conversations with himself and his relatives after family funerals, Mrs Schiavo said she would not want to be kept artificially alive.

This is hearsay from a witness whose subsequent life has raised doubts about his impartiality. But the Florida courts admitted it as evidence and have repeatedly deemed it a convincing guide to Mrs Schiavo's intentions. Last week, her feeding tube was removed and it has stayed out despite Congress reconvening over the weekend to pass a law giving her parents the right to appeal to the federal courts. A federal district judge and a federal appeals court, thinking the Schindlers have little chance of winning, have both refused to order the tube to be replaced. The Schindlers are battling on. But for the courts the only question is: why should her wishes not be carried out?

If the legal question is brutally simple, the politics is not. Mrs Schiavo's case has torn apart everything it touches. What began as a personal tragedy has rent asunder first her family, then her state, and is now tearing at the Congress and the nation at large. It has become the touchstone for hard questions: How do we treat the end of life? Who should make decisions about the last days of loved ones, if they cannot do so themselves? Who should police these new areas of bioethics?

In conservative lore, *Schindler v Schiavo* is becoming another *Roe v Wade*, a symbol of the unethical manipulation of life. The parents' spokesman, Randall Terry, is the founder of Operation Rescue, a group that led high-profile, sometimes violent, picketing of abortion clinics in the early 1990s. The National Right to Life Committee helped draft a bill in Congress that would have given patients like Mrs Schiavo rights of appeal to federal courts. Two anti-abortion groups, Concerned Women for America and the Family Research Council, helped lobby congressmen.

These groups all think the battle to protect the end of life is the same as the one to protect life in the womb. In court testimony, the Schindlers went so far as to suggest that protecting life was more important than their daughter's wishes: they would have sought to keep her alive even if she had refused medical help.

In the case of abortion, the fervent belief of a minority has kept the issue going without majority support in the country. This time, two in three Americans think the courts were right to remove Mrs Schiavo's feeding tube. Even more oppose Congress's intervention. These majorities cross boundaries of opinion. Self-described conservatives support the decision to remove the feeding tube. In an ageing society, many Americans are either looking after an elderly parent or may soon do so. Personal experience may count for more than deep-seated belief.

And as with abortion, careful framing of issues—and in some cases outright slander—have dominated political debate. In a special midnight session of Congress, members rose to ask essentially, if we can save a woman's life, why shouldn't we? (Thus avoiding the question of Mrs Schiavo's intentions.)

Bill Frist, the leader of the Senate, said that he had reviewed video evidence of Mrs Schiavo through medical eyes (he is a surgeon) and concluded that her doctors were wrong. She is not in a persistent vegetative state. Had he offered this medical opinion in court, he could have been sued. House Republicans accused Michael Schiavo of common-law bigamy. Their leader, Tom DeLay, spoke of “murder”. *National Review Online* proposed that, since Mr Schiavo is starving his wife to death, he should be charged with torture (her doctors insist she will feel no pain).

Given the hard questions involved in this case, one might perhaps have hoped Congress would have spoken with more restraint. But American democracy is more sensitive than most to grass-roots activism, so the charges that politicians were “responding to their conservative base” or that the process was “too political” are probably misplaced. The bigger question is whether Congress did the right thing.

Congress certainly could play a role in end-of-life debates. The Supreme Court has frequently said that political processes, rather than the courts, ought to set limits on people's actions in “life

issues". Last week, Republicans in the lower house of the Florida legislature tried to set a limit when they approved a bill that would have required feeding people in persistent vegetative states unless they had left specific directions to the contrary (the bill failed in the state Senate). By contrast Congress did not try to set up new limits this week. Instead, it voted to send the Schiavo case to federal court for review.

Congress has the power do this. And there are some doubts over the Florida courts' proceedings. The Schindlers say they did not get a fair trial because their daughter was not separately represented (since Mr Schiavo is her legal guardian, he represented her). The parents also argue that, because of his new family, Mr Schiavo should no longer have the rights of a competent spouse. The trouble is that the Schindler family's solution to the first problem—give Terri a court-appointed guardian—risks taking decisions about her fate out of the family altogether. And it is not clear pushing Mr Schiavo aside would make any difference now: the courts, following Terri's wishes, would order the tube to be disconnected.

Beyond that, there are significant worries about the wisdom of Congress's intervention. State courts handle private and domestic disputes (and the federal questions these raise). As Justice Antonin Scalia remarked on another "life" case, "I would have preferred that we announce, clearly and promptly, that the federal courts have no business in this field."

In the Schiavo case the state courts' proceedings were reviewed many times by appellate courts and the state Supreme Court. Jay Wolfson, who was appointed by the Florida courts to re-examine the case, concluded "the law has done its job well", the decisions "were firmly grounded in Florida statutory and case law" and that the law itself "was a conscious, deliberate process within the Florida legislative arena" (ie, the courts were not just making it up).

The Schindlers' federal appeal will surely end up at the Supreme Court. The court confirmed in 1990 that patients like Mrs Schiavo have a right to refuse treatment. In 1997 it struck down challenges to assisted-suicide laws in New York and Washington state, on the basis that such matters were up to the states. Justice Sandra Day O'Connor had this to say in the 1990 case: "a seriously ill or dying patient whose wishes are not honoured may feel a captive of the machinery required for life-sustaining measures or other medical interventions. Such forced treatment may burden that individual's liberty interests as much as any state coercion."

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The Minnesota school shooting

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From The Economist print edition

AP

Get article background

“Usually this happens in places like Columbine, white schools.” Thus a horrified American-Indian spokesman after the worst school shooting since the one at Columbine, Colorado, in 1999, in which 15 people died. Jeff Weise, 16 and pumped up with Nazi ideas, killed his grandfather, his grandfather's partner, five fellow-pupils, a teacher and a guard before shooting himself at Red Lake High School, in the vast emptiness of the Chippewa reservation in northern Minnesota. Before this, Red Lake was known only as the home of a small, not very successful casino; the nearest town, Bemidji, was 35 miles away. Now it stands as a symbol of the infiltration of America's largely jobless reservations by the “white” plagues of Hitler-worship and an unhealthy obsession with guns.

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The Senate on the rampage

Fiscal discipline. Who needs it?

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Profligacy still rules one chamber in Congress

POLITICIANS everywhere find tough budgets easier to tout than to implement. But America's senators may well have set new records for talking tough and living profligately.

America's tortured budget process began as usual in February with George Bush's proposed budget. This year Mr Bush touted fiscal discipline and pledged to halve the budget deficit by 2009. In fact, his budget was hardly tough. It included a slew of tax cuts worth $100 billion over the next five years, dodged the issue of fixing the alternative minimum tax and failed to include the cost of the Iraq war. Discipline came from keeping a lid on discretionary spending (outside defence and homeland security) and from cuts in entitlements, particularly Medicaid, the state and federal health plan for the poor.

In response to the president's proposals, both the House of Representatives and the Senate write their own budget outlines. They then, in theory, put them together in an overall budget resolution, which sets the parameters for detailed appropriations—or spending bills—down the road. Budget resolutions are not essential. In two out of the past three years, Congress failed to agree on a resolution. But, in the new-found spirit of fiscal prudence, Republican leaders in Congress are determined to pass a budget bill this year.

On March 17th, both the House and Senate passed their own budget plans. The House version was tighter than Mr Bush's. It suggested similar tax cuts, but took a bigger axe to entitlements, particularly Medicaid (a cut of $69 billion over five years compared with Mr Bush's $51 billion). Democrats have complained that this hits the poor whilst giving the rich more tax cuts, but it would reduce the deficit.

By contrast, the Senate's version is a fiscal obscenity. With much bluster about protecting the poor, the Senate stripped out most of Mr Bush's Medicaid cuts, restored money for community development and voted to increase funding for education. Thanks to defections from moderate Republicans, the Senate budget has only $18 billion of entitlement cuts over the next five years.

Meanwhile, the Senate added more tax cuts than even Mr Bush proposed, largely by knocking $64 billion off the taxes wealthy Americans pay on their Social Security benefits. The result: an even bigger budget deficit over the next five years than if Congress did nothing at all.

Reaching a compromise between the House and Senate versions of the budget will not be easy. Washington, DC, may once again end up with no budget resolution. But if the debate thus far is any guide, real fiscal discipline is a long way off.

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America and the United Nations

Love at second sight

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A new ambassador and a new reform plan go down better than expected

Get article background

IF JOHN BOLTON, intellectual scourge of woolly multilateralism, became America's ambassador to the United Nations, it would be a signal that George Bush wanted to lower the scandal-ridden body into its grave. That was the general view at the UN when Mr Bolton's name was first mooted. Now that the shock of his actually being nominated for the job on March 7th has started to abate, some senior UN types are beginning to argue that such a conservative heavyweight could, if properly handled, prove rather useful.

A similar reassessment has happened in some American circles about the idea of UN reform. In September 2003, when Kofi Annan, the UN's secretary-general, declared that the ageing world body had reached a “fork in the road” and set up the usual panel of international dignitaries to recommend reform, there was considerable scepticism in Washington, DC. Now that the panel has come up with relatively bold ideas (at least by UN standards) and Mr Annan has embraced them, America no longer seems quite so hostile.

Mr Annan's reform plan, which was set out in a report to the General Assembly this week, will be presented at a summit of world leaders in New York in September. It needs America's support. Is that likely?

There is quite a lot that Mr Bush's people seem to like: a new intergovernmental peace-building commission to help prevent “post-conflict societies”, like Congo, becoming failed states; a replacement for the UN's awful Human Rights Commission, whose members often include the worst torturers, by a smaller, elected Human Rights Council; an agreed definition of terrorism that denies any exemption for “freedom fighters” like those in Chechnya and Palestine; even an attempt to confirm a nation's right to launch a “pre-emptive” strike in the face of an “imminent” threat without going to the Security Council.

The hitches, from Mr Bush's point of view, come mainly in the details. For instance, the approval for pre-emptive strikes would not include preventive ones where the threat is “latent”; and Iraq would have fallen into this non-imminent category. Mr Annan also suggests a list of criteria to guide the Security Council when deciding whether to authorise the use of force. These criteria include the seriousness of the threat, whether other options exist and so on. From America's viewpoint, this looks like a way to restrain the world's sole superpower.

Mr Annan wants his proposals to be treated as a single package, not an “à la carte” menu. His new chief-of-staff, Mark Malloch Brown, claims it has “something in it for everyone...but it's also got some things in it that everybody will be mad about.” For instance, many third-world countries dislike the idea of the UN having a new “responsibility” to intervene to protect civilians from genocide or other atrocities; Mr Annan is betting that developing countries will swallow this violation of their sovereignty in exchange for rich countries agreeing (again) to jack up their

spending on development aid to 0.7% of their national incomes, with the aim of halving extreme poverty by 2015.

The most contentious part of Mr Annan's package, which he is desperate to wrap up before the September summit, concerns the Security Council. Mr Annan wants to increase the number of members from 15 to 24; and he has offered two complicated ways of how to do this. The current favourite involves adding six new permanent seats, though without the vetoes that would still be held by the current permanent five.

Germany, Japan, Brazil and India, the countries with the best chance of getting new permanent seats, have already drafted a resolution to present their joint candidacy to the General Assembly. The required change to the UN's charter would need the approval of at least two-thirds of the UN's 191 members. America seems keenest on Japan getting a seat.

Would a stronger, more representative UN be in America's interests? Many Democrats seem to think so. Republicans are less sure. Why should conservatives trust an organisation that failed to support the Iraq war, that messed up the oil-for-food programme, that sent peacekeepers to Congo who abused the people they were supposed to protect, that is “anti-Israel” and that supposedly tried to help John Kerry in the presidential election?

Yet in the wake of the Asian tsunami and the UN-organised elections in Iraq, Afghanistan and Palestine, Republicans are moderating their views a little. At the end of last year, Senator Norm Coleman of Minnesota was leading a pack baying for Mr Annan's head over the oil-for-food scandal. That may still happen (there were more revelations this week about the role of Mr Annan's son in the oil-for-food mess). But Mr Coleman now says he wants a “credible UN” because “the US cannot be the world's sole saviour. It needs to share its burden.”

Which brings the argument back to Mr Bolton. He has been a fierce critic of the UN in the past; but he is also straightforward and businesslike. Despite his neo-con credentials, he parted on good terms with Colin Powell, his boss at the State Department. Above all, Mr Bolton's nomination hints that Mr Bush is bent on reforming the organisation, not destroying it (something Condoleezza Rice, the secretary of state, has also told UN officials). Now the UN and its host nation can start arguing what exactly that reform should be.

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A cotton-pickers' revolt

Down with King George

Mar 23rd 2005 | LITTLE ROCK
From The Economist print edition

Some trouble for Mr Bush down south

COTTON has always reigned in the South. Northern jealousy of the region's slave-labour cotton plantations helped spark the civil war. But the crop remained long after the fighting stopped and the slaves were set free. It has also survived mechanisation and various pests. Can it survive a free market?

This month has seen two blows to cotton farmers' prospects. First, the Bush administration, trying to cut the budget, has proposed reductions in cotton subsidies, limiting them to $250,000 per farmer. Second, the World Trade Organisation has ruled that America's cotton subsidies exceed the limits determined in 1994. If the United States does not fall in line by July 1st, Brazil, which brought the complaint, can impose retaliatory sanctions.

Developing nations are cock-a-hoop about this. But George Bush's $250,000 limit would hurt plenty of southern farmers. Local Republicans are furious, and Senator Thad Cochran of Mississippi is leading a campaign to force a rethink.

Subsidies were created during the Depression of the 1930s to help small farmers and ensure domestic production of food and cotton. Cotton farmers, who received around $2.7 billion in subsidies in 2003, thought they, like other farmers, were protected by the 2002 Farm Security and Rural Investment Act, which was supposed to ensure hand-outs until 2007.

The cotton farmers complain that they face competitive disadvantages: although they use illegal immigrants (who doesn't?), they cannot hire labour for $1 a day, like their rivals overseas, and they face far tougher environmental laws. The subsidies, they say, are needed to defray the huge capital costs of their business, and also the fact that prices fluctuate so wildly.

Arkansas supplies around a tenth of America's home-grown cotton. Just like sugar in Louisiana (see article), cotton keeps a hold on the poorer, rural parts of the state. For instance, Tyler Farms, spread out across 60,000 acres of the impoverished Mississippi Delta, is a co-operative, bringing together some 39 investors, most from the same family, who in turn own 66 individual companies. Tyler, the recipient of about $37m in subsidies since 1995, is a powerful force in local politics.

The Environmental Working Group, a Washington-based watchdog, likes the idea of cutting cotton subsidies. It argues that, in the South, they only make the rich richer. The big agribusiness co-operatives are set up to maximise the take for each partner; although the current limit is meant to be $360,000 per farmer, many find loopholes to get more than $1m.

By one count, 10% of America's farmers receive more than 70% of its subsidies. But that still leaves a lot of struggling small farmers. Of Arkansas's 47,000 farms, fewer than 8,000 receive government subsidies for crops; the non-qualifiers either do not grow the right crops or do not have enough land. Green groups would rather government money went into protecting the environment than producing crops.

According to estimates by the University of Arkansas in Fayetteville, Mr Bush's proposed budget would cut $200m-worth of farm subsidies for Arkansas in 2006 (a lot of them for the cotton industry). Mr Bush won Arkansas last November, but the state's Democratic senator, Blanche Lincoln, who grew up in a farming family, is now rallying farmers against him.

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Politics, southern style

Sugar daddy

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A southern power-broker faces a few awkward questions

BOB ODOM usually gets what he wants. Two years ago, Louisiana's long-time agriculture commissioner decided that sugar farmers in the south-western part of the state needed a $45m mill to process cane into syrup. Lo and behold, a huge structure is rising just outside Lacassine, on a dug-up field now strewn with metal tanks and corrugated pipes. Mr Odom has dragooned sundry bureaucrats, including a veterinarian and a lawyer from his department, into working at the site. The great man has even done a bit himself. The mill will start grinding cane this autumn.

Mr Odom is an old-style agricultural commissioner, of the sort that used to run much of the South. But his era may be ending. He wants an even bigger $85m mill two hours away in the city of Bunkie—and, this time, even Louisianans are wondering about the cost of propping up an industry threatened by foreign competition, dietary trends and artificial sweeteners.

Strangely enough, the new mills would still be a dream if Louisiana's boll weevils had put up more of a fight. In the late 1990s, the state legislature set aside $12m a year in slot-machine taxes to eradicate the pest from cotton farms in north Louisiana. It worked, and the money reverted to the Louisiana Agricultural Finance Authority, an agency that Mr Odom dominates.

The state Bond Commission, which oversees public borrowing, approved the Lacassine mill after scant discussion in 2003 and looked set to rubber-stamp the Bunkie plan in January. But the state treasurer, John Kennedy, and Governor Kathleen Blanco, two of Mr Odom's fellow Democrats, made a fuss. So the commission called for a study of whether Mr Odom's latest pet project will actually work. The results are expected next month.

Mr Odom says the proposed mills will cut transport costs for local cane farmers, who now send their cane to be processed 100 miles away. Over time, sugar farmers will pay the state back. And burning cane by-products will produce excess electricity that, in theory, can be sold at a profit.

His critics give warning that the state could be stuck paying debt on two bankrupt sugar mills. They add that any department with enough surplus labour to build a sugar mill is bound to be overstaffed, and they question whether white-collar employees, like the vet, should be shovelling gravel. There's a political edge to this, too. Like many rural barons, Mr Odom is a Democrat in a region where Democrats are fading. His foes have called his plans a gross waste of taxpayers' money.

Yet Mr Odom will stay as long as he likes. Louisiana's unusual open-primary election system discourages partisan politics and rewards colourful characters. He easily won re-election in 2003, despite revelations that department employees built a house for his son and despite an indictment in 2002 on complicated charges of money-laundering, obstruction of justice and other misdeeds. (The legal case against him has fizzled out, however.)

To Mr Odom's rural supporters, the mill episode proves his worth: he is a can-do politician who

sticks up for farmers and isn't afraid of manual labour. “Whatever his employees are doing, he's doing,” points out one cane-producer. “He's not worried about getting his hands dirty.”

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Alaskan wildlife

Wolves and bears in the crosshairs

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Shooting one kind of animal so that hunters can shoot another

WOLVES dine on moose and caribou, creatures favoured by Alaska's human hunters. Since the number of moose and caribou is falling, hunters are allowed to shoot the competing wolves from the air. The practice, which was common in the 1950s and 1960s, is controversial: often the wolves are chased to exhaustion, then shot when hunters land near the wolves. In 1996 and 2000, Alaska's voters turned down proposals to resume aerial “predator control”. But these votes were reversed in 2003, a move supported by the Board of Game, a citizens' panel with authority over many wildlife decisions.

Aerial wolf-hunting started again late in 2003 and was expanded this winter: around 600 wolves will be killed during the current season. This month, after reviewing several proposals to expand the practice, the Board of Game decided to open up just one area to it, partly because state officials said that it was hard to monitor the current programme.

Aerial wolf-killing is banned in the rest of the country, but it does not lack for supporters in Alaska. Killing wolves costs the state next to nothing: volunteer pilots and hunters perform the task. Alaska's constitution, and the by-laws that govern its Department of Fish and Game, actually require the state to ensure that hunters can find plenty of moose, caribou and other game. Those regulations have their roots in the days before Alaska's statehood, when people hunted for most of their food.

Hunting is still quite popular: about 45,000 of Alaska's 648,800 people buy a moose-hunting permit each year. But the number of hunters is going down, even as the state's population increases. The easy availability of a Costco or Wal-Mart means fewer people must hunt to eat. Even so, an Anchorage man may still roll his mobile home into the country for a few days to get 100lb or so of moose-burgers.

However, shooting one kind of animal so that hunters can shoot another worries a lot of biologists and greens. They are also angry because the state plans to kill about 80 brown bears later this spring. As with wolves, these bears are targeted because they eat moose and caribou in an area where numbers of those animals have declined. But predator control of bears is a first in Alaska, where bears are hunted for sport but have not been killed to improve hunting of moose or caribou.

Vic Van Ballenberghe, a biologist who has studied Alaskan moose for more than two decades, is particularly concerned because bear numbers already seem to be dropping. Bears reproduce slowly, he says, so killing even a few could have large repercussions on the state's population of black, brown and grizzly bears.

There is also the effect on Alaska's tourism, now its second-biggest industry after oil. Around 1.5m people visit the state each summer, many of them coming to see the wolves and bears. This pits those who make a living from taking people to see the animals against those who shoot them.

Tension is particularly high at the McNeil river, 250 miles (400km) south-west of Anchorage, where bears catching spawning salmon draw hundreds of visitors each year. The Board of Game has put off for two years a plan to allow bear-shooting there; it hopes to bully the federal government to open part of Katmai National Park to bear-hunting instead.

Tourists visiting Denali National Park this summer may also be disappointed. There, a group of wolves called the Toklat pack has long been popular with visitors. But in February the Toklat pack wandered a short distance off the park in pursuit of moose, and the “alpha” female was snared and shot. Since then, says Gordon Haber, a biologist who has traced the pack's genetic and social bonds back 40 years, several pack members have returned to look for the female and themselves been caught.

Mr Haber is “over-romanticising” the Toklat wolves, says Jennifer Yuhas, executive director of the Alaska Outdoor Council, a pro-hunting-and-fishing group. It all depends on your point of view. Then again, cars kill some 600 moose in Alaska each year. Time to hunt a few Fords?

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Cuba and human rights

Mission improbable

Mar 23rd 2005 | HAVANA
From The Economist print edition

Reuters

Neither American toughness nor a European charm offensive is likely to persuade Fidel Castro to reverse his crackdown on dissent

Get article background

EVERY Sunday the wives of 75 dissidents jailed by Cuba's communist government in 2003 put on white clothes and attend mass at the church of Santa Rita in Miramar, a once-elegant district of Havana. After the service, they quietly walk up and down ten blocks of the avenue outside, before gathering briefly in a park. On March 18th, to mark the second anniversary of the heaviest crackdown by Fidel Castro's regime since the 1960s, they marched to the offices of state-run television to demand that it cover their cause.

These sustained public displays of opposition are almost unprecedented in a tightly controlled country. Hitherto, the government has chosen to ignore them. But on Palm Sunday, the wives felt the regime's wrath. They were besieged by 200 members of the government-backed Cuban Women's Federation, screeching insults, chanting slogans and waving the national flag. The previous day a mob had attacked a dissident supporter.

Two years on, Mr Castro's grip looks stronger than ever as his government prepares to fight the annual ritual in which its arch-enemy, the United States, seeks to have it condemned by the United Nations Human Rights Commission, whose sessions began this week in Geneva. Thanks to help from Venezuela and China, Cuba's moribund economy is reviving. In a six-hour speech this month, Mr Castro claimed that the island is finally “leaving behind” the “special period” of penury that followed the collapse of the Soviet Union, formerly its chief benefactor. The government has

handed out the first 100,000 of a promised 2.5m Chinese-made electric rice-cookers—whose virtues the elderly ruler praised for some two hours of the speech. Electricity shortages will soon be over, he promised. Thus fortified, the government has rolled back many of the timid economic reforms it ordered a decade ago. Mr Castro has taken to ending public meetings by singing the “Internationale”, a Marxist anthem.

Cuba's president may also be emboldened by deepening splits in the way the outside world deals with him. On the one hand, George Bush last year announced measures to tighten the long-standing American trade embargo against the island. Condoleezza Rice, the secretary of state, named Cuba as an “outpost of tyranny” along with the likes of North Korea and Iran. The administration has doubled aid to Mr Castro's opponents and started calling for “regime change” in Havana. As always, Mr Castro uses a more aggressive stance from the United States to rally Cuban nationalism and as a pretext for repression. Thus, officials label the dissidents not as a political opposition (this does not exist, they assert) but as “mercenaries” in the pay of the United States.

On the other hand, largely at the behest of Spain's socialist government, the European Union has abandoned the tougher stance it adopted against Cuba when the dissidents were arrested. This weekend, Louis Michel, the European commissioner for aid, will become the most senior EU official to visit the island since the crackdown. But Mr Castro offers few prizes to those who promote engagement with his government. In January, when the EU announced that it would suspend its diplomatic sanctions for six months, pending greater respect for human rights, Mr Castro retorted that he did not need anyone's pardon for jailing enemy mercenaries. However, he did release 14 of the dissidents last year in the run-up to the EU's decision.

Cuban officials are also comforted by the advent of a clutch of left-of-centre governments in Latin America. Many of these may cleave to market orthodoxy in economics, but satisfy their traditional supporters by embracing Mr Castro. Since 1998, the UN resolution against Cuba has been presented by a Latin American country. This year, the United States will itself present it. Cuban officials see that as a victory. They are pushing the Europeans to oppose the UN resolution. In return, they have offered a dialogue on human rights, a moratorium on the death penalty and perhaps the release of more ill prisoners.

Such gestures may persuade the Europeans to persist with their mission of engagement. But the harsh reality in Cuba is that the pro-democracy movement on the island is tiny, isolated and divided. The lengthy jail terms, averaging 19 years, imposed on the dissidents have had a chilling effect. Cuba's foreign minister, Felipe Perez Roque, refused to condemn last weekend's mob action against the dissidents' supporters. The message is clearer than ever: as long as Mr Castro remains in charge, democracy and political change are off the agenda.

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Canada's Conservatives

On the long road back

Mar 23rd 2005 | OTTAWA
From The Economist print edition

The opposition becomes more electable

Get article background

Reuters

He won't harp on about abortion

HAVING been in power for 55 of the past 70 years, the Liberals have earned the title of Canada's perpetual ruling party. The Conservatives, traditionally the main opposition, last saw office a dozen years ago and were all but wiped out in an election in 1993. So when 2,900 Conservative delegates gathered last week in Montreal for a policy-setting convention, the questions nagging many were why the political pendulum swings so rarely—and whether they can now make it do so again.

The Conservatives do not lack reasons for hope. The convention was the first since the merger in October 2003 of the two parties into which the right had splintered—the Canadian Alliance and the Progressive Conservatives. The new party has a youngish, intelligent and presentable leader in Stephen Harper. Its 99 MPs and its shadow cabinet are not devoid of talent or experience (if not necessarily of cabinet office). Yet if the Conservatives are to turf out the minority Liberal government of Paul Martin at the next general election—probably little more than a year away—they still have work to do.

The merger was something of a shotgun marriage, pushed from the top by the Alliance's Mr Harper and his Progressive Conservative counterpart, Peter MacKay, ahead of last year's election. The fit was less than perfect. The Alliance, based in western Canada, brought a tradition of populism and a taste for small government and large tax cuts. Its new partner had been largely reduced to a rump in the Atlantic provinces. Many of its leaders were centrist “Red Tories”; one of them, Joe Clark, a former prime minister, opposed the merger, accusing the Alliance of having a “hidden agenda” of fundamentalist social conservatism.

In last year's campaign, Mr Harper's early attacks on Liberal sleaze and waste saw a surge of support for the new party in the opinion polls. But this ebbed when voters believed Mr Martin's claim that the Conservatives would restrict abortion, prohibit same-sex marriages, and generally disregard Canada's Charter of Rights and Freedoms. The upshot was that though the merger delivered 21 more seats, the new party's vote was 8% lower than that of its predecessors combined. A poll this month had the Conservatives still trailing the Liberals, by 30% to 35%.

The party's strategists insist that it needs to do more to capture the middle ground of politics. So Mr Harper tried to minimise debate at the convention on social issues: resolutions on these questions were decided by paper ballots (rather than a show of hands), with no amendments accepted. The delegates decided that a Conservative government would not legislate to restrict

abortion but would reverse a Liberal bill to recognise same-sex marriages. On defence, the convention approved a more traditional conservative platform: the party would increase military spending and improve relations with the United States, lining up with George Bush's government on ballistic missile defence and in rejecting the Kyoto accord on greenhouse gas emissions. Overall, the convention approved “a moderate, mainstream programme which reflects Canadian values,” Mr Harper claimed.

The event was not free of internal tensions. Mr MacKay successfully objected to a resolution that would have given veterans of the Alliance a dominant position in the party. At one point, Mr Harper was seen kicking a chair across the floor in frustration. But he emerged with his leadership of the party strengthened: he was endorsed by 84% of the delegates, and delivered a couple of powerful speeches mocking Mr Martin. The party's appeal in Ontario, the most populous province, may be helped by the prominent role of Belinda Stronach, a businesswoman who is one of the few Tory MPs who support same-sex marriage. She adds glamour and good looks to a somewhat sombre party.

Yet some doubts still remain. Mr Harper is by tradition a fiscal conservative, yet this month he backed away from opposing the Liberal budget, which features big dollops of extra spending on health. The party's platform on defence and foreign policy remains vague. “It shows they are not serious about acting as an alternative government,” according to Andrew Cohen, a foreign-policy specialist at Ottawa's Carleton University. “They have to do some hard thinking, about aid and military spending.” And Mr Harper, a cerebral figure, remains remote from voters. The Conservatives have taken a step towards making themselves electable again. But Mr Martin, who was due to meet Mr Bush in Texas this week, has the benefit of a robust economy and a munificent budget. The next election, when it comes, may be even closer than the last.

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Economist.com WORLD LATIN AMERICA

Nicaragua and the United States

Missile crisis

Mar 23rd 2005 | MEXICO CITY
From The Economist print edition

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THE civil war in the 1980s between the left-wing Sandinist government and the American-backed Contra rebels left a devastated Nicaragua rich in only one commodity: weapons. In particular, the war's legacy included a large arsenal of Soviet-made shoulder-launched surface-to-air missiles (SAM-7s). These have now become the centre of an escalating dispute between Nicaragua's government, its opposition and the United States.

Nobody thought much about these rather dated weapons until the terrorist attacks of September 11th 2001. Since then, George Bush's government has become increasingly worried that in the hands of terrorists, such missiles could be used to shoot down civil aircraft, as nearly happened in Kenya in 2002. Encouraged by the Americans, Nicaragua's army has destroyed around half of its original arsenal of 2,000 missiles. Unhappy at the lack of progress in disposing of the remainder, on March 18th the Bush administration suspended most of its $2.3m of annual military aid to Nicaragua.

This punishment surprised many in Nicaragua. Under Enrique Bolaños, the president since 2001, the country has been a staunch American ally. Despite much opposition at home, Mr Bolaños even sent a small force to Iraq. The president wants to destroy the missiles. The problem is that he cannot. The decision to do so now lies with Congress, which recently passed a law requiring its approval of any move to destroy or purchase arms.

This law was one of the fruits of an unholy alliance of Mr Bolaños's two chief opponents, Arnoldo Alemán, his predecessor and party rival, and Daniel Ortega, the longstanding Sandinist leader. Though Mr Alemán is in jail for corruption, he continues to dominate the ruling Liberal Constitutional Party. Both men want to turn Mr Bolaños into a puppet until an election in November 2006.

Peter DeShazo of the Centre for Strategic and International Studies, a think-tank in Washington, DC, says the fact that the administration has chosen to sanction a friendly government “underlines the depth of concern on this issue”. Certainly, Nicaraguan weapons do not always end up in the right hands. In 2001, some 3,000 rifles from Nicaragua's police ostensibly sold to their Panamanian counterparts ended up with Colombia's right-wing paramilitaries, the AUC. The Americans have paid for better security at the sites where the missiles are stored.

Others see the suspension of military aid as a pointless humiliation of Mr Bolaños which merely allows the Sandinists to complain about Yankee interference in Nicaragua's affairs. A foreign diplomat in Managua complains of “a completely misguided way to do things, putting pressure on all the wrong places”. He worries that the decision to suspend aid may destroy a good working relationship built up over many years between the United States and Nicaragua's army.

Peru and Brazil

Short cut to China

Mar 23rd 2005 | ASSIS AND IÑAPARI
From The Economist print edition

Completing the missing link

STANDING at a scenic vantage point, Silton Melo can see the small steamy town of Assis, in Brazil's far west, of which he is a councillor. Across the Acre river, reached by dugout canoe, lies Peru; to the left is Bolivia. But Mr Melo, like other Brazilian politicians all the way up to the president, Luiz Inácio Lula da Silva, sees more than just the Peruvian town of Iñapari when he looks out over the slow-moving muddy river. His vision stretches hundreds of kilometres to Peru's Pacific coast.

Last August, Lula and his Peruvian counterpart, Alejandro Toledo, met in Assis. They laid the first stone of a bridge across the river, and signed an agreement whereby Brazil will help pay to upgrade the 700 kilometres (440 miles) of road, much of it a rutted dirt track, between Iñapari and the coast. If all runs to schedule, by June 2006 an asphalt road will run directly from São Paulo to Lima—and, more importantly, from Brazil's soya-growing state of Mato Grosso to Peru's Pacific ports.

This great road link is not a new idea. Peru's government hacked a trail through the jungle to the border in 1965. In the 1970s, a military government bought a 700-metre suspension bridge from Austria to span the Madre de Dios, a mightier river than the Acre. But the steel girders for the bridge have remained in their boxes since arriving in Peru in 1978. They might have remained there for another quarter-century had Lula's government not shown enthusiasm for the project. It is putting up $420m of the $892m cost for the highway. For Peru, the road is expected to provide some 20,000 jobs, one way or another, during construction. Once open, officials hope it will attract business and more jobs to some of the country's poorest towns in the Andes and the jungle. They talk of a new export market opening up in Brazil for such products as paprika and

artichokes.

Brazil's ambitions for the road are even grander. It already sends 18% of its exports to Asia, and that share is rising fast. China is lapping up Brazilian soyabeans and wood pulp, much of which is produced in the country's centre-west region. At present, these goods have to be carried to Atlantic ports or trucked across Argentina to Chile. The new road will provide a much shorter route. Officials expect a daily flow of some 400 40-tonne trucks from Brazil. This should encourage investment in Peru's inefficient and run-down ports.

In Assis, where a shopping centre is going up, Mr Melo predicts a bonanza as his town's status rises from end-of-the-line to border entrepôt. The only people who are not excited about the new road are environmentalists. Peru's Madre de Dios department is one of world's most bio-diverse areas, home to three national parks, a nature reserve and a reserve for jungle Indian peoples. Benigno Herrera, a leader of the Brazil-nut gatherers in the Tambopata reserve, fears that the trucks will be followed by settlers seeking to clear forest for soya and cattle. But, so far, such complaints have barely been noticed in the general euphoria over a project long dreamed of finally becoming reality.

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The Galapagos Islands

Endangered Eden

Mar 23rd 2005 | QUITO
From The Economist print edition

The government loses control

UNTIL recently, Ecuador's government had done a rather good job of preserving the Galapagos Islands, the archipelago whose unique wildlife offered a young Charles Darwin clinching proof of evolution. Small towns have grown up on two of the islands, but many of the others are near pristine. Tourists, in carefully regimented parties, are ferried round to gawp at close quarters at blue-footed boobies and marine iguanas. But over the past few years, a struggle between conservation and development has been building.

The latest fight is over shark fishing. This is illegal in the marine reserve surrounding the islands. But fishermen, both local and foreign, have been caught with sharks, or slicing off their fins and returning the fish to the water to die. Shark fins command high prices in Asia, where they are prized for soup. This month, the government decided to allow the export of fins from sharks caught “accidentally” outside the marine reserve. That will provide cover for illegal exports, say critics.

Another clash looms over sea cucumbers, a soft-bodied creature equally coveted in Asia. Fishermen, who now number over a thousand, are pressing for longer seasons in which to catch these marine animals. Environmental groups fear the sea-cucumber population is shrinking; they are likely to argue for a total ban this year.

Fishermen and others among the islands' 18,000 residents complain that they are left out by the tourist industry. Tourism is worth some $150m a year, but most of this goes to the mainland. Most tourists take cruises, making only brief visits to the island's towns. Some environmentalists have come to believe that ways must be found to give locals more of a stake in tourism—and thus in conservation. But they also want the government to tighten controls on migration to the archipelago.

That will be hard. Under the weak government of Lucio Gutiérrez, the Galapagos National Park has seen no fewer than ten different directors in two years. Those who backed conservation were ousted by demonstrations by fishermen and their allies. This disarray has led UNESCO, which considers the islands to be a world heritage site, to announce that it will send a delegation next month. It may declare the whole archipelago to be endangered. It is time to think anew about how to balance the competing interests in one of the world's most unusual environments.

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Correction: Vancouver and Victoria

Mar 23rd 2005
From The Economist print edition

Last week we mistakenly awarded Vancouver the status of capital of British Columbia. Apologies to the citizens of Victoria.

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America and China

A relationship reconsidered

Mar 23rd 2005 | BEIJING, SEOUL AND TOKYO
From The Economist print edition

But the problems of North Korea and Taiwan still rankle

“CHINA”, wrote Condoleezza Rice when George Bush was first running for the American presidency, “resents the role of the United States in the Asia-Pacific region”. During a visit to China as part of an Asian tour in her new role as secretary of state, she diplomatically avoided such bluntness, remarking instead that America and China shared common interests in regional and global stability. But on two of the region's paramount security issues, North Korea and Taiwan, Ms Rice did not find the Chinese all that helpful.

She made clear that America was growing impatient with the lack of progress in the Chinese-hosted six-way dialogue on North Korea's nuclear programme that also includes South Korea, Japan and Russia. On March 21st, at the end of her six-nation trip, she told reporters in Beijing that America remained “committed” to the talks, even though North Korea is now refusing to participate. But she also said that if North Korea remained obdurate, “we will have to look at other options”.

What might these be? Cracking down harder on North Korea's trade in weapons, drugs and counterfeit dollars would be one possibility. Taking the problem back to the United Nations Security Council might be another. To America's undoubted annoyance, China's leaders showed no obvious sign of willingness to step up pressure on the North to re-enter the talks, let alone make concessions.

America has not made clear quite how it would like China to lean on North Korea. China provides vital food and energy supplies, but is opposed to the imposition of economic sanctions on its communist neighbour and notional ally. It is worried that such measures could destabilise the impoverished country in ways that could threaten China.

Adam Ward of the International Institute for Strategic Studies in London says America has no real expectations that China will impose sanctions at this stage or agree to put the issue to the Security Council. But he argues that the Americans would at least like China to signal to North Korea that it might be willing to adopt a tougher policy and that North Korea's claimed (though not yet proven) possession of nuclear weapons is an issue that also affects China's security.

Some Chinese officials may indeed want to be more co-operative with the Americans, not least because North Korea's nuclear programme gives the United States an excuse to maintain a strong security presence in East Asia and Japan an excuse to bolster its armed forces. But others worry that undermining the North Korean regime could allow America to dictate the terms of eventual reunification of the peninsula and deprive China of a strategic buffer against American forces.

The Russians show no interest in pressuring North Korea either, and even South Korea is at times disturbed by American rhetoric. During her swing through the region, Ms Rice was at pains to reassure all involved that America respected North Korea's sovereignty. She insisted that America has no plans to attack or invade the country. Such remarks were well received in South Korea, where there had been fears of escalating tension between America and North Korea following Ms Rice's description of the north as an “outpost of tyranny” in January. She repeated American offers of economic assistance as part of a settlement of the nuclear issue.

On China's relations with Taiwan, Ms Rice said China's adoption last week of an anti-secession law, which threatens the use of “non-peaceful means” against the island should it assert its independence was “not a welcome development”. She was considerably blunter in her criticism of the European Union for considering lifting the embargo on the sale of weapons to China it imposed in response to the crushing of the Tiananmen Square protests in 1989. More than once, she warned the Europeans not to do anything that would alter the balance of power in Asia. “It is the United States—not Europe—that has defended the Pacific,” she said.

The Europeans at least may be paying heed. On March 20th, Britain's foreign secretary, Jack Straw, said political problems relating to the embargo's lifting had become “more difficult” as a result of lack of progress by China on human-rights issues as well as the passing of the anti-secession bill. Recently, European Union officials had suggested that the embargo could be scrapped by the middle of the year, albeit with the introduction of restrictions on the sale of weapons to China.

Yet for all their differences, the Americans and Chinese both appeared keen not to let human rights get in the way of their discussions. Shortly before Ms Rice's visit, China freed a prominent political prisoner, Rebiya Kadeer. Ms Kadeer, a businesswoman from the western province of Xinjiang, was arrested in 1999 while on her way to meet an American congressional delegation. She was accused of harming national security. In apparent response to her release, America said it would not seek to censure China during this year's meeting in Geneva of the UN Commission on Human Rights, which began last week. Notwithstanding Mr Straw's concerns, Ms Rice said in Beijing that there had been “some progress” on human rights in China in recent months.

Ms Rice's eagerness not to ruffle feathers in China was also evident in Tokyo, where she was asked to explain her description of China as a “strategic competitor” before she joined the Bush administration. It shows, she said, that you should not write an article and then go into government: “People might actually read it.”

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China

Green guise

Mar 23rd 2005 | BEIJING
From The Economist print edition

China protects its trees, devours others

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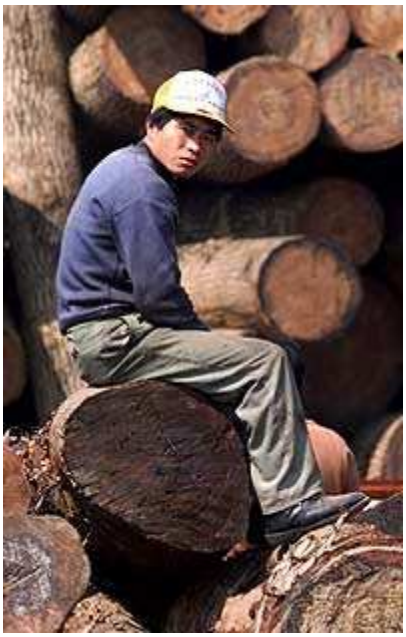
Reuters



A dubious provenance

IN 1998, after deforestation caused the Yangzi river to burst its banks, costing 2,500 lives and billions of dollars in damage, China's government got serious about trees. It issued orders to protect healthy forests, rehabilitate distressed ones and replant many woodland areas cleared for farmland. It cracked down on illegal loggers. Could it be, conservationists whispered, that a combination of tragedy and self-interest had forced a great emerging consumer to go green?

Alas, the answer is no. While claiming that a sustainable timber industry, able to meet the nation's needs, was its goal, the government slashed tariffs on imported timber. As imports have soared, so have corruption and incompetence within the sector; stipulated checks on the provenance of imported rough-cut logs are often neglected or inadequate. While praising China's efforts to manage its forests better, the same conservationists say it is the main hub of a global trade in illegal timber.

The government, of course, denies it. One of its departments, the State Forest Administration (SFA), which recently completed a five-year survey of China's forests, claims the country's consumption and production of timber are neatly balanced, and that it will continue meeting its need for wood from its own forests for the foreseeable future. According to one senior SFA official: “It is out of the question that the country would satisfy its domestic demands by increasing tree felling from neighbouring countries.”

Yet, according to conservationists, China is already importing vast quantities of timber, much of which is illegally harvested. And even if that were not true, China's predicted growth—at an average of 8% over the next five years—suggests that it soon would be.

A British-based green group, the Environmental Investigation Agency (EIA), says that China imported 1m cubic metres of logs in 1997, and 16m cubic metres in 2002. The country currently consumes 17 times less wood per capita than America, but that figure is expected to shrink. By 2010, according to the World Wildlife Fund, China will be able to meet only half of its demand for industrial wood from domestic supplies.

It is impossible to estimate what proportion of the timber China imports is illegally harvested. Yet cases of abuse are numerous and well-documented, involving timber from Russia, Myanmar and Brazil among other culprits. In a new report, EIA describes a timber-smuggling chain that each month brings 300,000 cubic metres of merbau, a valuable hardwood, from Indonesia's Papua

province, to the Chinese port of Zhangjiagang. With most of its forestry already felled, Indonesia bans most exports of timber. Yet according to the EIA, illegal logging is rife in Papua thanks to collusion between Indonesia's army and certain Malaysian logging gangs there.

Chinese conservationists say the logs from Papua are shipped to China with falsified Malaysian paperwork, which Chinese customs officials are unable to verify. To end the racket, they suggest Malaysia's customs should give notice to their Chinese counterparts when legal shipments of logs leave their shores.

But ending the illegal shipments would come at no small cost to China. A short distance from Zhangjiagang lies a small town called Nanxun, which five years ago produced only modest amounts of wooden floorboards. The town now hosts 500 floorboard factories and some 200 sawmills which, according to the EIA, together process one merbau log every minute of every working day.

Many of Nanxum's boards are sold domestically. But some also end up back at sea, being exported to Europe and North America. To end the illegal trade would take help from governments in those regions, and would sadly involve their citizens paying more for their polished floorboards.

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South Korea and Japan

Rocky relations

Mar 23rd 2005 | SEOUL
From The Economist print edition

Fingers are wagged and cut off

Get article background

THERE is nothing like a few rocks to excite national passions, and Asia has plenty of them. The latest lot to hit the headlines, at least in South Korea, are some volcanic islets that lie between Korea, where they are known as Tokdo, and Japan, where they are called Takeshima. A long and tedious disagreement over sovereignty erupted into open anger recently after Shimane, a Japanese prefecture, passed a bill designating February 22nd as “Takeshima day”, to mark the date in 1905 when Japan first claimed the miserable little outcrop.

Outraged South Koreans responded with a show of nationalistic fervour. The government fulminated that Japan's claim was tantamount to invasion, and an old woman and her son protested by cutting off their little fingers and threatening to send the severed bits to Japan's prime minister. A like-minded youth set fire to himself, as demonstrators took to the streets.

Despite four decades of ever-closer bilateral ties, and trade now worth almost $70 billion, Japan and South Korea have notoriously prickly relations. Korean resentment is fuelled by memories of Japan's brutal 35-year colonisation of the peninsula, which ended in 1945, and the enduring belief that the Japanese have failed to atone properly for their past. Many South Koreans still harbour bitter memories of being forced to adopt Japanese names and attempts to eradicate Korean culture and identity.

The roots of the conflicting claims to ownership of the islands date from this colonial period. Although the first historical references identify the islands as belonging to an ancient Korean kingdom, after Japan's annexation of the peninsula at the beginning of the 20th century they became part of its imperial territory until the end of the second world war.

Beyond wounded pride, South Korea has some economic reasons for maintaining its claim. The waters around the islands contain lots of fish, and reserves of natural gas and minerals may lie beneath them. South Korea has stationed a number of policemen on the rocks. It rejects any attempts by the Japanese side to represent the issue as a territorial dispute which requires international mediation.

The South Korean foreign minister, Ban Ki-moon, took advantage of the visit of the American secretary of state to bend her ear on the subject, but in public Condoleezza Rice sidestepped it. Japan's prime minister, Junichiro Koizumi, has called for calm. The reaction of the Japanese to the periodic outbreaks of Korean hostility towards them typically ranges from bewilderment to exasperation.

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Economist.com WORLD ASIA

Drinking in Japan

The perils of losing control

Mar 23rd 2005 | TOKYO
From The Economist print edition

The politician and the snow bunny learn a harsh lesson

HE WAS arrested for one offence and apologised for two. Kazuyoshi Nakanishi, a member of parliament for Japan's ruling Liberal Democratic Party, landed in a Tokyo police cell earlier this month after molesting a young woman in the city's Roppongi nightclub district. Although the woman did not press charges, the 40-year-old politician announced that he would resign his seat. Japanese women tend to find themselves being groped by men depressingly often, especially on crowded trains. But Mr Nakanishi's behaviour has caused most surprise for another reason. Besides apologising for molesting the young woman, he has also vowed to give up drink.

Mr Nakanishi is not the only public figure to have been brought low recently by overdoing the booze. Tae Satoya, a 28-year-old skier with an Olympic gold medal, has found herself all over the gossip pages after drinking in a Roppongi club and causing a scene. Exactly what happened is unclear. Ms Satoya's companion insists he was not really having sex with her when they were interrupted in a back room; and there is still a dispute over whether it was she who started the brawl and wrecked the furniture. But her night on the town has sparked enough interest to prompt *Josei Seven*, a women's magazine, to offer its readers advice on how to get drunk without risking humiliation.

It would be a stretch to say that these incidents, and their aftermath, point clearly to changing attitudes towards drunkenness. Change, of all sorts, is gradual in Japan. Late at night, drunken *sararimen* can still be seen staggering about the city streets, managing, by some mysterious homing mechanism, to find the right train to their suburb. The public's disapproval of Mr Nakanishi is for his molestation of a woman, not for his heavy drinking beforehand. And though his party fears that Mr Nakanishi's sexual offence will hurt its candidates in some April by-elections, nobody expects ordinary Japanese to ease up on the *sake* during the cherry-blossom festivals about to take place all over the country. Many of the tipplers will weep at the beauty of the blossoms and the transience of life that they symbolise. Then some of them will pick fights.

Still, there do seem to be changes afoot. Alcohol consumption is falling, partly for economic reasons. A new booze tax was introduced in 1996, and since then has been extended to previously untaxed alcoholic drinks. Even before the tax came in, corporate entertainment budgets were beginning to come under scrutiny. Once people had to buy their drinks out of their own pockets, they started to ease up.

Yet Mariko Fujiwara, of the Hakuhodo Institute of Life and Living, reckons that attitudes are changing for other reasons as well. Younger Japanese, says Ms Fujiwara, are more likely than their forebears to worry about the social and professional consequences of losing control while drinking. Instead of simply gathering with their colleagues, or dragging an associate to the local watering hole, they are much keener to go to fashionable areas, and to be seen drinking in the right bars with the right people. Losing control and humiliating oneself defeats the purpose of this sort of social drinking. Ms Fujiwara points out that consumption of whisky and beer has fallen sharply over the past ten years or so, while consumption of wine has risen a bit. This, she says, reflects a

greater tendency to drink during meals, and to swill less afterwards at the bar. Slowly, very slowly, a new message seems to be taking hold in Japan: eat, drink and be careful, or tomorrow you may have to resign.

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Kirgizstan

Osh, b'gosh

Mar 23rd 2005 | ALMATY
From The Economist print edition

People power spreads to Central Asia

AFP

Sticking it to Akaev

AFTER Ukraine and Georgia, will Kirgizstan be the next ex-Soviet state to see an autocratic president driven from office by the demonstrators surging on its streets? Hopes rose among the opposition to President Askar Akaev this week, as protesters took over the southern city of Osh, the country's second biggest, and Jalal-Abad, a nearby town. But, at midweek, Mr Akaev still seemed firmly in place.

The protesters' complaint was that the government had rigged the recent parliamentary election, which took place in two rounds on February 27th and March 13th. Among the many supporters of Mr Akaev who won seats were his daughter Bermet and his son Aidar. The Organisation for Security and Co-operation in Europe said the polling had “significant shortcomings”.

Within a few days, thousands of protesters had seized provincial government buildings in southern Kirgizstan and set fire to a police station in Jalal-Abad. Four policemen had allegedly been beaten to death. And stones had been placed on the runway of the town's airfield to prevent the security forces from flying in reinforcements. The protesters wanted the resignation of Mr Akaev and a new election.

The president, asserting that their actions were intended to provoke a violent response from the government, ruled out the widescale use of force; and, at least in the first part of the week, the police and government officials showed little or no resistance. In Osh, policemen ran away from a crowd of over 1,000 young men armed with sticks and petrol bombs. Some may have been sympathetic to the protesters, but all no doubt remembered the deaths of six demonstrators shot by police in 2002. This led to the resignation of Kurmanbek Bakiev, then the prime minister, now a leading member of the opposition. In 1990, just before the Soviet Union broke up, at least 200 people died in clashes between Kirgiz and Uzbeks in this area. Any repetition might well cause extensive bloodshed.

Mr Akaev has sacked his interior minister and prosecutor-general; but he insists the election results will stand regardless. His critics are cynical. Some people believe Mr Akaev flew to Moscow last weekend for consultations with Vladimir Putin's government. “I think they are readying for a crackdown,” says Edil Baisalov, head of a group called the Coalition for Democracy and Civil Society. He fears an attempt to incite mass disorder or inter-ethnic fighting that would serve as an excuse to bring in foreign troops. As it happens, Kirgizstan already has a Russian military base—and an American one, which is used as part of the Bush administration's fight against terror.

When the Central Asian republics won their independence from the Soviet Union, Mr Akaev was

the only local leader who had not previously run the local Communist party. He was seen as fairly sensible, and has certainly handled relations with Russia and America skilfully. Over the years, though, he has become more authoritarian, manipulating the presidential poll in 2000 and consolidating his powers through dubious referendums in 1996 and 2003. Corruption has flourished, and he shows every sign of wanting to create a dynasty. In spite of all this, he has promised to step down in October, when the next presidential election is due—though his aim may be to hand over to one of his children.

Meanwhile, the opposition has set up a shadow government, but it is still far from taking power in the capital, Bishkek. It lacks a central figure around whom to rally. And the main protests are limited to the south, an agricultural region that is much poorer and more densely populated than the north. Southerners, many of whom are ethnic Uzbeks, tend to feel shut out of the country's political life. Mr Akaev may not be able to keep them excluded indefinitely, but he is not finished yet.

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India and America

Modi immobilised

Mar 23rd 2005 | DELHI
From The Economist print edition

America denies a visa to an extremist

“HE MAY be a mass murderer,” opined Vir Sanghvi in the *Hindustan Times*, the newspaper he edits, “but he's our mass murderer.” Mr Sanghvi was trying to explain the reaction of many Indians, including himself, to the Bush administration's decision this month to refuse a visa to Narendra Modi, chief minister of the state of Gujarat. Mr Modi is blamed for a pogrom in his state three years ago, in which perhaps 2,000 Muslims were killed. He is one of the most divisive figures in Indian politics. Yet the visa issue has united most politicians behind him.

America withdrew Mr Modi's visa under a section of its immigration law that bars entry to any foreign government official responsible for “particularly severe violations of religious freedom”. To defend the ban, American officials cited a report by India's own human-rights commission. The Indian Supreme Court has criticised Mr Modi's government for failing to stop the killing or bring any of the killers to justice.

Indian human-rights activists were delighted by the decision, but affronted Indian politicians, including the prime minister, Manmohan Singh, protested. They pointed out that Mr Modi is still the constitutionally elected chief minister of a state of more than 50m people and has not been formally charged with any crime. The row came just two days after a visit from America's secretary of state, Condoleezza Rice, who spoke of the improvement in bilateral relations.

Mr Modi, at least, seemed to enjoy the attention. He made a cantankerous speech at a protest rally in Gujarat, attacking America's cosiness with the unelected leader of Pakistan, and spoke more soberly over a video link to Indian expatriates in Madison Square Garden in New York. He holds a British visa, so can do the same in person, at the Royal Albert Hall in London on March 26th.

His new victimhood may also have saved Mr Modi his job. He is unpopular in some quarters of his Bharatiya Janata Party, the main national opposition. Some blame him and the Gujarat riots for the party's electoral defeat last year. Even in Gujarat, where, despite his bigotry, he has built up a reputation for efficient administration, his state legislators find him high-handed and periodically plot his downfall. But to conspire against him now would seem unpatriotic.

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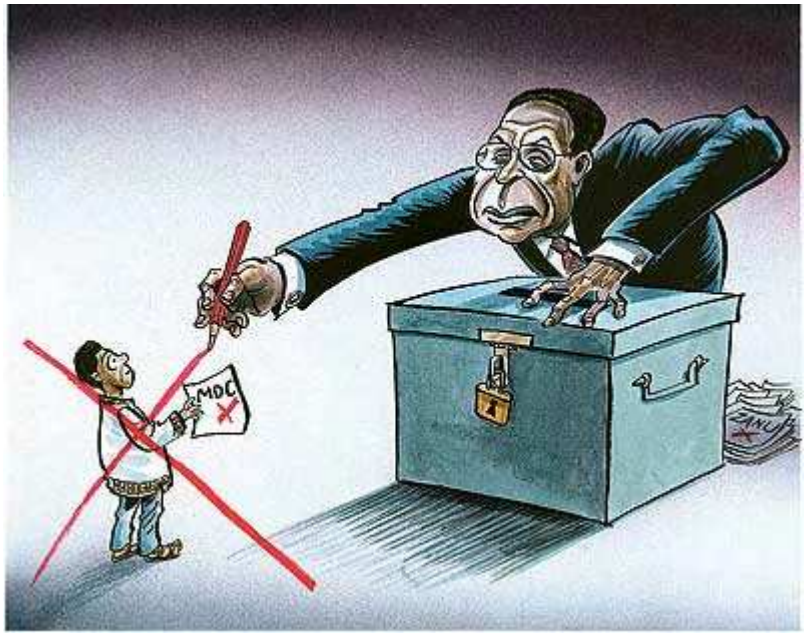
WORLD
AFRICA & MIDDLE EAST

Zimbabwe

Robert Mugabe is poised to rig a general election once again

Mar 23rd 2005 | BULAWAYO
From The Economist print edition



There has been less violence than there was in the run-up to the poll five years ago, but there is no chance that the one on March 31st will be free or fair

Get article background

IN A woodland park in Bulawayo, Zimbabwe's second town, a hundred or so black and white people huddled together in the moonlight, as if at a prayer meeting. Men perched on boulders and bowed their heads, women sat on fold-up chairs, a few devotees waved torches. Many wore bandannas, T-shirts or strips of white cloth signifying support for the Movement for Democratic Change (MDC), the opposition party that would almost certainly win the poll if it were allowed to. Posters displayed the party's symbol, an open hand. Burly MDC youths watched out for police. A speaker greeted the group in the local language, Ndebele, then sang out: “A new Zimbabwe!” The crowd shouted back: “A new beginning! Amandla [Power]!” Yet the chances of the MDC guiding Zimbabwe towards that bright new dawn are minimal.

Of parliament's 150 seats, 120 are up for election in single-member, first-past-the-post constituencies; the president, Robert Mugabe, nominates the remaining 30 MPs. Few open-minded people doubt that, if the poll were free and fair, the MDC would romp home. Despite massive intimidation and vote-rigging in the last general election, in 2000, the newly formed party won 57 seats, with 47% of votes cast, against 62 seats for Mr Mugabe's ruling ZANU-PF (to give it its full acronym) which officially took 48.6% of the vote. The MDC lodged complaints about alleged vote-rigging in 37 constituencies which ZANU was adjudged to have won; but the courts, heavily influenced by the president and his friends, have failed in the past five years to deal with a single

such case.

Two years later, in 2002, the MDC's leader, Morgan Tsvangirai, a trade unionist, would surely have unseated Mr Mugabe in a presidential election, had the police not beaten up opposition voters, blocked people from reaching polling stations, and let officials declare false results. The opposition is particularly popular in the capital, Harare, in larger towns like Bulawayo, and in the country's southern belt. Several years of economic collapse, hunger, corruption, a spiralling AIDS epidemic and chronic misrule mean that ZANU, itself sharply divided, is widely hated.

But there is little prospect of it being ousted soon. “I won't vote, it's useless,” says a street-trader in Bulawayo. “I voted last time, but not now. The old man [Mugabe] will win, whatever we do.” The city's outspoken archbishop, Pius Ncube, thinks most voters have been bludgeoned into passivity by years of violence. “There is no way for change, because of this rigging. It's likely to be more rigged than the last one. They [ZANU] have learnt a lot of tricks. People just pray that Mugabe should die. I pray for that.”

There are fewer reports of violence this time, partly because groups that used to document it have been forced to give up, though some still operate in secret. This week Human Rights Watch, a New York-based group, reported less violence than before but said that intimidation and partisan laws give ZANU a huge advantage. It enumerates dozens of recent cases of MDC people being beaten, kidnapped and harassed by police and ZANU thugs. Hundreds of local journalists, it says, were arrested last year. Last week a Bulawayo newspaper reported that 40 people had recently been arrested for unspecified “political crimes”.

Mr Mugabe has evidently put out the word that there should now be less bloodshed. During the last general election, thugs and veterans of the independence war were paid to kill opposition campaigners and to invade and take over the farms of MDC-backers. Now, because he wants to avoid shocking observers from South Africa (even though he is letting in only those he thinks most sympathetic), he is adopting subtler rigging techniques.

All the same, most polling stations will be run by soldiers and party agents responsible for the violence last time round: they will hand out ballot papers and tally the results. And there is still the threat of violent retribution after the poll. “People are very much afraid,” says Archbishop Ncube. “No one in Zimbabwe is willing to sacrifice his life.”

Since last time, constituency boundaries have been gerrymandered. A handful of MDC-held seats in populous urban areas have been abolished and new constituencies demarcated in rural areas where land-hungry peasants are friendlier to ZANU. Some urban seats have been merged with neighbouring rural ones, where voters are more pliable and ballot boxes in remote parts more easily stuffed.

In addition, the smaller number of outside observers will be more stretched to watch every ballot box and monitor the count in 8,000-plus polling stations across the land—a vast increase on the past. This time, the ballot papers will be counted where they have been cast, rather than at central counting places. Moreover, villagers are being told that ZANU agents will know, by looking through the transparent new boxes, who has voted for the MDC.

Vote for me—or starve

And ZANU people say bluntly that only their supporters will get government food aid. Farming has collapsed, a drought is now parching the southern half of the country, most aid from outside the country is blocked, and AIDS is rampant. Last month the Johannesburg-based Famine Early Warning System Network, estimated that 5.8m Zimbabweans, in a population of around 11.5m,

desperately need food aid—or they could starve. So voting the “wrong way” looks to many of them like a death-sentence.

Furthermore, the ZANU-appointed electoral commission is happy to use an out-of-date voters' roll. This, along with ballot stuffing, could be ZANU's single biggest vote-rigging advantage. A full register has never been disclosed. A partial audit of the roll by the MDC in Bulawayo shows why. Of a sample group of 500 voters, barely half were listed correctly. Nearly a fifth of those named were dead; officials ensure that such “ghosts” are loyal ZANU voters. The South Africa-based Zimbabwe Institute, which advises the MDC, reckons that this probably gives ZANU an 800,000-vote bonus in a voting population of around 5.3m. In addition, the 3m-odd Zimbabweans, most of them very likely MDC backers, who have been driven into exile by economic collapse or government repression, are barred from postal voting.

Few of the observers from abroad seem likely to complain about this patent skulduggery, since most of those let in are from countries whose governments are friendly to Mr Mugabe. The Commonwealth, the European Union and the United States have not been allowed to send observers. Independent-minded African watchers, such as the parliamentary group of the Southern African Development Community (SADC), the Electoral Institute of Southern Africa and South Africa's trade union body, COSATU, have been barred.

South Africa's official observer delegation is the key. Recent comments by President Thabo Mbeki and the leader of his observer mission, Membathisi Mdladlana, the labour minister, suggest they have already made up their minds to declare the election free and fair. The MDC is appalled by Mr Mbeki's partiality, fearing that his team will make much of the quieter mood this time round. Almost all of SADC's 13 member-governments (Mauritius and Botswana are possible exceptions) sound inclined, in a show of regional solidarity, to fall in behind Mr Mbeki.

Hoping to take advantage of the comparative calm, Mr Mugabe has now decided to let in many foreign journalists, after years of excluding nearly all of them, and the MDC and Mr Tsvangirai are being given a few minutes of air time on the state television news (followed, of course, by an hour or so of Mr Mugabe and other ZANU leaders). But Zimbabwe's most independent newspapers, notably the *Daily News*, remain closed, and ZANU virtually monopolises radio broadcasts.

Mr Mugabe seems determined, this time, to win two-thirds of the seats, so he can then change the constitution. Among other things, he might scrap a provision that requires an election soon after a president steps down. That would make it easier for Mr Mugabe, now 81, to handpick and then impose a successor, probably the new vice-president, Joyce Mujuru, known during the liberation war as Comrade Spill Blood, wife of a former head of the armed forces and defence minister.

It is just conceivable that an MDC majority of votes will be too big even for Mr Mugabe's crooked officials to fiddle away. Or, if the result is rigged as expected, it is possible that demonstrations in Harare will be too big for Mr Mugabe and his soldiers to face down. But that does not seem likely. Mr Tsvangirai and his friends know from experience that Mr Mugabe is not averse to cracking a lot of heads. After being battered by several years of repression, the MDC does not look like having the stomach for a revolution on the streets.

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Economist.com WORLD AFRICA & MIDDLE EAST

Iraq

Break that jam

Mar 23rd 2005 | BAGHDAD AND KIRKUK
From The Economist print edition

The Shia Arabs and the Kurds are groping towards creating a government

Get article background

AP

Kurds celebrate in their Jerusalem

NEARLY two months after a remarkably successful general election, Iraqis are still without a new government—and are getting understandably impatient. But leaders of the two main winning groups—the so-called "Shia list", which won 140 of the 275 seats in the new parliament, and the Kurdish alliance which won 75—insist that they are close to striking a deal that will produce a coalition government. Though they have not yet said so publicly, the leaders seem to have struck a temporary compromise over the bitterly divided city of Kirkuk. The last stumbling block to creating a new government is over the final distribution of ministries and over whether Iyad Allawi, the interim prime minister, a secular-minded Shia whose alliance came third in the election, should be woven into a governing coalition—and if so what job he should get.

The stickiest issue, as expected, was the status of Kirkuk, which the Kurds say is their "Jerusalem" but which Arabs—Shias and Sunnis alike—say is part of their heritage. The Kurds now say that the Shias will reluctantly accept, for the time being, the arrangement written into the Transitional Administrative Law (known as the TAL), a temporary constitution endorsed by the Americans when they handed over formal sovereignty to an interim government last summer.

Under the TAL, "the permanent resolution of disputed territories, including Kirkuk, shall be deferred until [resettlement and compensation] measures are completed, a fair and transparent census has been conducted and the permanent constitution has been ratified. This resolution shall...[take] into account the will of the people of those territories." If, during the drafting of a national constitution (due to be done by August), there is further disagreement over Kirkuk, the TAL says that Iraq's three-person Presidency Council should "unanimously appoint a neutral arbitrator to examine the issue and make recommendations. In the event the Presidency Council is unable to agree on an arbitrator, it shall request the secretary-general of the UN to appoint a distinguished international person to be the arbitrator."

What this means, say the Kurds, is that, once a census is taken, a referendum must be held ("taking into account the will of the people") to decide whether the whole province of Kirkuk (also known as Tamim) should join the Kurdish region or whether (as some senior Kurds are suggesting, by way of compromise) the region's borders should be redrawn to take in just those parts of the province where Kurds predominate, leaving the rest to be part of Arab Iraq. There will be further arguments over who is entitled to be counted; the expectation is that Kurds expelled by Saddam Hussein during his "Arabisation" campaign in the 1970s will be tallied, and the Saddam-

era Arab settlers, many of whom have already gone, will not.

Separately, it is possible that the city of Kirkuk, even if it falls within an enlarged Kurdish region, may come under a special administration, perhaps under UN oversight, with built-in power-sharing on the city council to cater for non-Kurdish minorities, including Turkomen Iraqis who look to Turkey for protection and feel particularly aggrieved by Kurdish supremacy. Jalal Talabani, one of the Kurds' two main leaders, is expected later this week to see Grand Ayatollah Ali al-Sistani, the voice of Shia Iraq, in the hope of sealing a deal—or, at any rate, agreeing to put off a final arrangement for Kirkuk until later. It is still not clear what will be put into writing.

The Shia never cared much for the TAL, which they say was imposed upon them by the Americans, but appear to have grudgingly agreed to accept it as Iraq's temporary constitution—in order to get on with the business of governing. As a token of good intent, they have agreed to start resettling Arabs from Kirkuk. They have agreed to let the Kurds' *peshmerga* (former guerrilla) fighters continue to serve as police in the north. And they reportedly agreed on the division of government funds, including oil revenues; the Kurds, who make up a fifth of Iraq's population, say they have been getting 17% of the oil income and want to up the amount to 24%.

Even if the leaders do come to an agreement over Kirkuk, it will be hard for them to sell it to their followers, many of whom feel passionately about who controls the city. Many Sunni and Shia tribal sheikhs say that they are prepared to go to the aid of their co-religionists in the disputed province, should the Kurds try to hold it by force. And many Kurds, including Massoud Barzani, leader of the Kurds' most powerful party, still say they will do just that, if the political process breaks down.

Even if a deal has been reached this time around, the issue will flare up again when a permanent constitution is written. Shia clergy swear from their pulpits that they will not accept the “sell-out” of Kirkuk, while Mr Barzani, the Kurdish region's president-to-be, says that the province must join sooner rather than later.

Meanwhile, the allocation of top jobs is nearly done. Almost certainly, Mr Talabani will be Iraq's president and Dr Ibrahim al-Jaafari, who heads the Dawa party within the Shia alliance, prime minister. The speaker is likely to be a Sunni, perhaps the current interim president, Ghazi al-Yawar. The Kurds may well keep the foreign ministry. Mr Allawi, if he is brought in, may be given defence, though the main Shia alliance is warier of him than the Kurds are.

In any event, with Kirkuk at least temporarily out of the way, it is time to start governing—in the hope that disaffected Sunnis, fairly represented in an apparently legitimate government, will start turning against the insurgents, who are plainly still very active. According to the Americans, insurgent attacks have dropped from around 70 a day in the months before the election to around 40-50.

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Economist.com WORLD AFRICA & MIDDLE EAST

Lebanon

Fill that vacuum

Mar 23rd 2005 | BEIRUT
From The Economist print edition

As nerves fray, could the Arab world's first female prime minister emerge?

AFP

Might Bahia Hariri be called to the top?

YOUNG Beirutis bobbed on with the bamba at their fanciest nightclub, the Music Hall, as text messages relayed news on March 18th of the country's first car-bomb since the one that blew up their former prime minister, Rafik Hariri, last month. But behind the bravado lurks fear that the party may be turning sour. Five days later, another bombing in a Christian area north of Beirut killed two people, further raising sectarian tension. Mr Hariri's greatest legacy—the bustling complex of shopping colonnades that was once Beirut's war-battered centre—is again a nervous no man's land.

The opposition, which wants Syria to let go of its hold over Lebanon, is still able to put on a good street party, papering over the country's differences. Christians who once castigated Mr Hariri for Islamising the country by building a massive mosque with minarets soaring above the churches downtown dutifully hang his photograph from their balconies. Young anti-Syrian activists in their tent city, put up to keep vigil by Mr Hariri's shrine in Martyrs' Square, have acquired friendships and even lovers across the sectarian divide. Where demonstrations elsewhere in the Arab world are guided by men with beards, in Beirut the front lines are still being manned by fashion queens with Pekinese dogs wrapped in Lebanon's flag, along with suave bankers accompanied by Sri Lankan maids.

But Lebanon is now counting the costs of the stand-off with Syria, which has taken half of its occupying army back home and withdrawn the rest to the Bekaa valley in the east. The legion of Syrian construction workers, who rebuilt Beirut, have taken flight in fear of reprisals. Heineken has suspended plans to open a brewery; a flock of cranes stand stationary over the city. The city municipality is advertising for hundreds of rubbish collectors. Jobless Lebanese are keenly awaiting the day when an independent government will impose work visas on Syrian migrants they accuse of stealing their jobs.

But Central Bank economists say the exodus of migrant workers will push up salaries (since Syrian labourers worked for $6 a day, whereas most Lebanese expect $18), spike inflation and cut profits. An injection of Kuwaiti and Saudi capital has so far matched the flight of Syrian capital, but bankers fear that angry rulers in Damascus may block Lebanon's trade routes to the Arab world. “If the gains are lost, the euphoria will be baseless,” says one.

In any event, the street protests have brought down a government but left a political vacuum. Lebanon remains a tinderbox of sectarian rivalries, making regime change a complex business. The opposition is an uneasy alliance of sects, led by warlords jostling for position. Christian leaders

suspect that Walid Jumblatt, the Druze leader, is working the Lebanese crowd and world opinion for his own political ends. When he spoke of winds of regional change blowing west from Iraq, he may genuinely have seen a democratic light. But many Lebanese think that Mr Jumblatt, a lifelong “anti-imperialist” who lambasted America's invasion of Iraq, was singing from Washington's hymn sheet just to win President Bush's backing.

So Christian Maronite leaders, including their patriarch, have rallied to prevent the Druze leader anointing his own man as president, a post the constitution allots to one of their own, even though uneasy about the continuing rule of their co-religionist, President Emile Lahoud, who is seen as a stooge of his Syrian counterpart, Bashir Assad. “That guy [Mr Jumblatt] waged war for 15 years against the Maronites,” says an aide of the patriarch. “We don't want to see a Maronite president thrown to the wolves like a piece of meat.”

Sniffing a chance to divide the opposition, Mr Lahoud's remaining men are fanning sectarian flames. “If they keep on pushing internationally and domestically, it will blow up into a civil war,” says a presidential official. Though Mr Lahoud can no longer count on the army, which has already disobeyed orders to crush the demonstrators, his security chiefs are continuing their reign.

Lebanon is exhausted by war, but the ingredients for violence are still very much there. While the Iranian- and Syrian-backed Islamist movement, Hizbullah, is Lebanon's best-armed militia, all the old warlords still have their private ports, through which they can rush arms into Lebanon within hours.

So far all the country's religious leaders have sought to restrain ambitious sectarian politicians, but the opposition sorely needs a unifying figure. Mr Hariri's sister Bahia, an MP, has impressed with her moderation, courage and non-sectarian embrace. While some of the best-known opposition figures, such as Mr Jumblatt and the Maronite leader, Amin Gemayel, have retreated to their strongholds in apparent fear for their lives, Ms Hariri calmed the crowds from the podium in Martyrs' Square. She hurried to comfort New Jdeideh, a Christian suburb in Beirut hit by last week's bomb. And she has reached out to the restless followers of Hizbullah.

If she were made prime minister, it would hardly reduce the blight of nepotism. But it would at least give all Lebanon's communities a respected prime minister to fill the vacuum and the modern Arab world its first female leader. That really would mark a break.

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Economist.com WORLD AFRICA & MIDDLE EAST

Israel and Palestine

The battle for public relations

Mar 23rd 2005 | JERUSALEM
From The Economist print edition

The Palestinians are not only outgunned, but outmessaged

BEING the dominant side in the world's most-scrutinised conflict has taught Israel a bitter lesson: that “war does not take place just in the battlefield, but also on the TV screen,” says Gideon Meir, one of the foreign ministry's top spokesmen. But that lesson seems to have eluded the Palestinian Authority (PA)—even as the two sides enter a phase in which conveying the right message will matter more than ever.

That might surprise a casual observer, for it is hard to tell which side has better public relations just by looking at the coverage itself. Packs of media watchdogs scrutinise every news item, providing daily reams of proof that the world's media are both riddled with Israel-haters and controlled by a Zionist conspiracy. For the former view, subscribe to the mailing lists of Independent Media Review Analysis or Palestinian Media Watch—just don't confuse it with Palestine Media Watch, which (along with others) dishes out similar vitriol for anything that seems too pro-Israel.

However, in informational as well as military terms, the Palestinians are far outgunned. Israel has press officers in every ministry and embassy and an annual PR-training course in Washington, DC, for selected spokespeople. The foreign ministry has a 24-hour monitoring centre which analyses coverage in several languages, counts the airtime given to Israeli and Palestinian spokespeople down to the last second, and sends out real-time electronic reports on it to officials. Even so, says Mr Meir, he is pushing to make things more systematic, to get his colleagues to weigh up how every decision will play in the media, especially the foreign media.

The Israeli army, too, has learned lessons during the second *intifada* (which began in 2000), according to Ruth Yaron, its chief spokeswoman. Soldiers are trained on how to act around cameras. Press officers take part in planning operations—helping, for instance, to time them to match media deadlines—and army camera teams go along on them, providing footage (eg, of arms-smuggling tunnels and would-be suicide bombers caught at checkpoints) that goes out to the media.

As the occupied underdog, the Palestinians should have a natural advantage. But, says a Palestinian official, “The Israelis have a horrible product but they spend a lot of time in marketing, and they succeed, whereas the Palestinians have a really good product, but we invest nothing in selling it.”

As a legacy of Yasser Arafat's one-man domination of power, there is no government press office (there is an information ministry, but nobody is quite sure what it does); no co-ordinated message; no systematic media monitoring. Public statements mostly come either from officials who do not have media training or from public personalities who do but are not in the government. One result has been an inability to capitalise on things that should have been huge PR victories, such as last year's International Court of Justice ruling against Israel's West Bank barrier.

“I don't think many of our officials understand the importance of the media,” says Hanan Ashrawi, one of those public personalities, “and those who do want to be [in the media] themselves.” Some of the PA's more enlightened leaders are pushing for a better strategy, “but it's difficult”, says Ghassan Khatib, the planning minister, “when you take into consideration the nature of the people involved, the lack of a system and lack of discipline.”

Even Hamas, the Islamist party that will challenge the ruling Fatah for legislative and municipal seats this year, is more media-savvy, grumbles the Palestinian official. Earlier this month it announced its decision to run in English, a sign that it realises its shift into politics is as important a message to the West as it is to Palestinians.

The accent still counts

The closest thing to a Palestinian makeover came during the *intifada* in the form of Diana Buttu and Michael Tarazi, Canadian- and American-born lawyers who conveyed a consistent message in perfect English. “They had a tremendous impact, because audiences could look at them and say, ‘one of us',” says Sharif Nashashibi of Arab Media Watch, a London-based watchdog. Israel has even used videos of them in training its diplomats to speak.

But the two worked not for the PA itself but for the negotiations branch of the PLO, the umbrella movement of Palestinian parties, so were not actually speaking for the Palestinian hierarchy. That both alienated jealous rivals and dissatisfied international donors, who cancelled funding for their communications project last year.

Now, with a tentative ceasefire on the table and the beginnings of a new peace process visible in the distance, both sides must present a post-*intifada* face. The path of any peace talks will depend on how much each side convinces the world of its good intentions. Israel has already launched a new rebranding campaign, “Israel Beyond the Conflict”, promoting stories about the country's technological and agricultural prowess. Mahmoud Abbas has branded himself as the Palestinian president who will stop the *intifada*. But even if he achieves that goal—at a meeting last week in Cairo, the militant factions promised a ceasefire until the year's end—his success will depend on how credibly he can claim that he has done all he can, in the face of an organised Israeli campaign to prove the contrary. As things are, he stands little chance.

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France and the European Union

Are they winning?

Mar 23rd 2005 | PARIS
From The Economist print edition

AFP

The shocking risk of a non to the European Union constitution

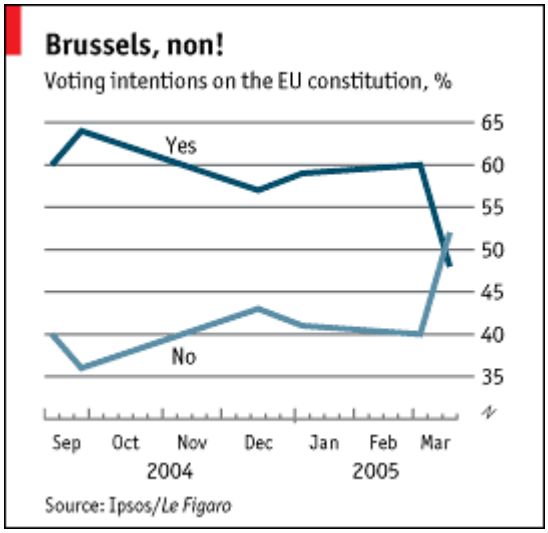
Get article background

IT WAS not supposed to happen this fast. When President Jacques Chirac decided to advance France's referendum on the draft European Union constitution to May 29th, the idea was to avoid the “Maastricht scenario”. In 1992 support for that treaty sank over the summer months from 65% to just 51%. This time, with two months still left, two new opinion polls suggest that backing for the constitution has already collapsed: the no vote is now at 51-52%. Is France, architect of Europe, really set to reject its first constitution?

A single poll could be a freak. Although the yes vote has clearly been slipping (from 69% in December to 63% in February, according to CSA, the pollster for *Le Parisien*), such a crumbling of support in one month looks decidedly odd. Yet a second poll conducted by Ipsos for *Le Figaro* has now agreed with the first one. The yes vote has plunged from 60% in early March to 48%, according to Ipsos (see chart).

The two results could still be a blip. Plenty of voters are undecided, know little about the constitution, or see no great issue at stake. If Maastricht is a guide, prediction is perilous: four weeks before the 1992 yes vote, BVA, another pollster, also registered a no of 51%. The shock of the new polls could also galvanise pro-voters—and

higher participation should favour a yes. Stunned French politicians have duly begun to dramatise the vote. Valéry Giscard d'Estaing, a former president who chaired the convention that first drafted the constitution, has talked of an “open crisis” if France says no. Jacques Delors, former president of the European Commission, has talked of a “cataclysm”.



Whether they represent a new trend or not, the new polls show that a French no is now a real possibility. How to explain such a surge of Euro-hostility? Partly, no doubt, it is a protest against an unpopular government, led by Jean-Pierre Raffarin, the prime minister, which seems to have lost its way at a time when voters are most anxious about jobs and pay. Unemployment is over 10%. Growth is still sluggish. Rents are rising. Hundreds of thousands of protesters have taken to the streets. Yet the government lacks any serious plan to revive the economy or increase jobs. Moreover, a whiff of sleaze hangs in the air, after the resignation of Hervé Gaymard as finance minister over a housing scandal, not to mention the opening this week of a corruption trial that fingers colleagues of Mr Chirac when he was mayor of Paris.

Yet something structural is going on as well: the rise of a new Euroscepticism. In France, a founder member of the European club, this sentiment has in the past belonged largely to the political fringes: the hard left, or Jean-Marie Le Pen's far-right National Front. From a tender age, French voters are taught the virtues of Europe. For political leaders, on left and right alike, Europe has been the means of preserving and projecting French power in a world that was otherwise eroding it. In short, Europe offered comfort: protection from decline; reaffirmation of their social model; the foundation of peace.

This sense of comfort is now falling away. In its place, Europe is increasingly seen as a menace: a destroyer of privileges and a source of new threats. Take the two issues that vex the French most just now, neither related to the constitution, but both overshadowing it: the European Commission's directive to liberalise services, which Mr Chirac ripped apart, just as he had earlier torn up the euro area's stability and growth pact, at this week's EU summit (see article); and Turkey's possible EU membership. The first, introduced by Frits Bolkestein, a Dutch liberal, has become an emblem of French fears about an “ultra-liberal” Europe. There may be genuine concerns about lower wages or safety. But nobody has even tried to explain the merits of the measure, although it was approved by the two French commissioners at the time (one of them, Michel Barnier, is now foreign minister). It has rather become, as one socialist puts it, a symbol of “Europe's drift towards liberalisation”.

Frustration with the services directive is intense. There is incomprehension over how Brussels failed to grasp French sensitivity. After Mr Chirac telephoned José Manuel Barroso, the commission president, to complain about the directive, Mr Barroso replied this week by swiping at French political leaders. “The referendum is not about the Bolkestein directive,” he declared, adding that any confusion in French minds was “not our fault”, that France was not the only EU member, and that he had no intention of shelving his economic programme just because of the French referendum.

The prospect of Turkish entry has unleashed comparable levels of exasperation among the French. In this case, Mr Chirac is in favour, but most French voters are against—and they have not been appeased by the promise of another referendum before Turkey joins. Opposition is not provoked by a large Turkish population in France, nor is it only about the problems of taking in a big, poor and mainly Muslim country. Rather, the inclusion of Turkey is seen as yet another symbol of the

transformation of the EU into a loose confederation, lacking political ambition, and far removed from the founding French idea.

It is this notion of the “wrong sort of Europe” that mobilises the no campaigners. Laurent Fabius, the Socialist Party's number two, supported Maastricht, and still calls himself “fundamentally pro-European”. But now he fears that “Europe will become just a free-trade zone”. Better to return to the Nice treaty, and start again. His views have been influential, despite efforts by François Hollande, his pro-constitution party leader, to drown them out. The two new polls confirm that most of the growing no sentiment is on the left. Among supporters of the ruling UMP party, 70% say they would vote yes. On the left, support has dropped from 54% to 45%.

French Euroscepticism is thus the polar opposite of the British variety: it is not anti-Europe but rather anti-liberal Europe. It represents a desire to go back to the comfort zone. But this is surely a delusion. For it is highly unlikely that the French, any more than the British, would secure a new EU treaty that is any more to their taste should they reject the draft constitution.

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Poland's prime minister

Constitutional concerns

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Marek Belka's planned departure will complicate the next election

AP

The resigning Mr Belka

THE turbulence of Polish party politics will confront the rigidities of the Polish constitution if the prime minister, Marek Belka, goes ahead with his planned resignation on May 5th. President Aleksander Kwasniewski wants Mr Belka to stay on at least until May 17th, when Poland hosts a Council of Europe summit. But after that, the course of government is anyone's guess.

On May 5th the parliament will also debate its own early dissolution. Any vote requires a two-thirds majority, so it may well fail. The Democratic Left Alliance (SLD), Mr Belka's present party, wants to delay elections until parliament's term formally ends in September. Unless parliament either dissolves itself or supports another prime minister, Mr Belka could be left running the government for two or three months after his resignation—when it will be almost time for elections anyway. One possible way of avoiding this drawn-out torture was being touted this week: Mr Belka might seek a vote of confidence in the expectation of losing it.

Mr Belka took over the government, as Mr Kwasniewski's nominee, when the SLD's veteran leader, Leszek Miller, resigned the day after Poland joined the European Union last May. Mr Belka said then that he would serve for one year only, and he seems keen to stick to that pledge. He can ignore pressure from the SLD not to resign, because he has now declared his intention to join a brand new party, the Democratic Party. Its driving force is Wladyslaw Frasyniuk, a Solidarity veteran; its stars include a former Solidarity prime minister, Tadeusz Mazowiecki, and Mr Belka's deputy prime minister, Jerzy Hausner, who will soon quit the government. It is now fishing for support from the moderate right and soft left alike.

Whatever the merits of the Democratic Party, its arrival means that the next election, whenever it comes, will be a more confused and less predictable affair. There is less chance now that Poland's two main right-wing parties, Civic Platform and Law and Justice, will emerge with a workable majority in the new parliament: the Democratic Party may drain away too many of their votes. That also means less chance of a strong new government ready to make the deep cuts in taxes and public spending needed to get Poland's economy back on course. It is true that there was a hole at the centre of Polish politics; but this may not have been the best time to fill it.

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German reforms

The federal knot

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From The Economist print edition

Gloom over economic reform revives talk of changes to federalism

Get article background

POLITICAL reality rarely lives up to media hype, but in Germany the gap is unusually wide. Witness the " jobs summit" on March 17th, when the government and opposition met to discuss economic reforms. Before the meeting there was speculation of a magic potion to cure the ill of over 5m unemployed. Yet the two sides came up with little new beyond a cut in corporate-tax rates and minor changes in unemployment benefits.

The two sides did, however, agree to make another effort to reform Germany's federal structure. That may prove the most important outcome of the summit. Overhauling federalism is arguably the most needed of all reforms in Germany, enabling the country to respond faster to change. At present the federal government and the states are so intertwined that they often block any conceivable reforms.

The jobs summit was a prime example of what is wrong. Why should Chancellor Gerhard Schröder, whose centre-left coalition has a clear majority in the Bundestag, have to negotiate with the opposition? The answer is that he cannot get big legislation through without it, as the Bundesrat, the upper house, is made up of delegates from the states, mostly run by the Christian Democrats (CDU). This also explains why the summit was overshadowed by an otherwise marginally interesting case of political treason in Schleswig-Holstein. After a tight election there in February, the state's Social Democratic (SPD) premier, Heide Simonis, needed every vote in her camp in parliament to stay in office. But despite several rounds of voting, a single, anonymous member refused to support Ms Simonis, forcing her to resign.

The obvious answer to this would be a new state election. But the SPD is likely to look instead for a "grand coalition" with the CDU, rather than risk a new vote. If Mr Schröder's party were to lose Schleswig-Holstein completely and, just as likely, North Rhine-Westphalia, where elections will be held on May 22nd, the CDU would gain a two-thirds majority in the Bundesrat, enabling it to block virtually all legislation, including even the budget.

It had been hoped that a high-level commission would come up with a plan to reform federalism shortly after Easter. Late last year, a deal seemed within reach: the states were willing to cede much of their veto power, in return for wresting several regulatory powers from the federal government. In the end, however, neither side could agree how to divvy up their responsibilities, in particular for higher education. If the commission again fails to reach an agreement, the institutional blockages will persist—unless and until the government changes. One possibility favoured by some in the media is a formal "grand coalition" of CDU and SPD at federal level. Berlin rumours suggest this may happen sooner rather than later, since the coalition of SPD and Greens may not have much future. But there is always more talk of grand coalitions than action: the only one tried, in 1966-69, is deemed a failure.

What still seems more likely is that the CDU will win the next federal election in 2006 and then, for a while, have a majority in both houses. But this will not permanently cut Germany's federal knot. Instead of waiting for more summits and commissions, Germany might yet need a full-scale constitutional convention.

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Chechnya's disappeared

The war after the war

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The scandal of Chechnya's "disappeared" people

COMPARED with the first war of 1994-96, when Grozny was flattened, or with the early period of the second war in 1999-2000, Russia's grimmest north Caucasian republic is now relatively peaceful. But another peril, as terrifying and in a way more insidious, has replaced the threat of bombing. Credible estimates suggest that 3,000-5,000 people have "disappeared" in Chechnya since 1999, often to face torture and summary execution.

In about a third of cases documented by Human Rights Watch (HRW), a lobby group, in a report out this week, the perpetrators' accents and vehicles identified them as Russian forces (though they often wore masks and covered up number-plates). In the rest, they were Chechen "security" forces: often henchmen of Ramzan Kadyrov, son of a Chechen president blown up last year, who is now Chechnya's first deputy prime minister. (Mr Kadyrov has implausibly threatened to sue activists who accuse him of involvement.)

After the slaughter of schoolchildren in Beslan last September, Russia's prosecutor-general suggested the idea of detention of terrorists' relatives. The idea was dropped in Moscow—but not in Chechnya. Some of the disappeared were members of known or suspected rebels' families, such as seven kinsmen of Aslan Maskhadov, the Chechen leader killed earlier this month. Yet most were ordinary young people who caught the wrong eye, or were in the wrong place at the wrong time. Alexander Petrov of HRW's Moscow office speculates that, under torture, victims may incriminate innocent people, who are in turn snatched and tortured. At least under Stalin, says another human-rights worker, there was a pretence of legal protocol.

Cash, not politics or religion, often explains why the Chechen conflict has become so nasty. As Tolstoy's Caucasian stories attest, loot has long been a perquisite for fighters of Russia's southern wars. These days, cash may be snatched along with people. Yet only in a few cases does ransom money change hands. (Memorial, a Russian human-rights group, says relatives sometimes pay to retrieve a corpse.) The bigger causes of disappearances may be the dysfunctional state of the Russian army, exacerbated by the stress of serving in a brutalising region; a desire to intimidate an alienated population; and the Kremlin's encouragement of rivalries among various pro-Moscow factions.

Some top officials recognise the problem, even if Alu Alkhanov, the latest Chechen president, played it down this week at a pow-wow in Strasbourg. But, as so often, rhetoric at the top seems not to be filtering down into action. Umpteen investigations have begun in Chechnya, but securing convictions is another matter. Vladimir Lukin, Russia's human-rights ombudsman, hopes this may change "in the not too distant future", adding that the plethora of security services in Chechnya is a complication. Complaints ping-pong between military and civil prosecutors, relatives are threatened into dropping them, and, as Mr Petrov puts it, "an atmosphere of absolute impunity" prevails.

Last month, the European Court of Human Rights ruled in three cases involving bombing and

extra-judicial killing that the Russian government had violated Chechens' rights. HRW says that the disappearances should be seen as a “crime against humanity”, a legal classification that, in theory, enables other countries to act. But it is hard to see what anybody from outside could do. Vladimir Putin, Russia's president, who once offered to arrange the circumcision of a journalist who was bothering him over Chechnya, is notoriously touchy on the subject. Nor will Maskhadov's demise help the situation. His own authority over Shamil Basayev and other violent terrorists was doubtful, at best. But his nominal successor, Abdul-Khalim Saidulayev, may have even less.

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Turkey and the European Union

Stumbling to Brussels

Mar 23rd 2005 | ANKARA
From The Economist print edition

The Turkish government has work to do if it is to begin EU entry talks in October

Get article background

WHEN European Union leaders agreed on December 17th to open membership talks with Turkey, the country's future looked better than it had for decades. Yet three months on, the reformist zeal of Recep Tayyip Erdogan, the mildly Islamist prime minister, seems to have fizzled out—and there are troubling signs of anti-westernism in some Turkish quarters.

While trying (not always successfully) to avoid public rows, EU diplomats are now saying that Turkey must get moving if entry talks are to start, as promised, on October 3rd. Before the talks can begin, Turkey must formalise relations with all ten countries that joined the EU last May—including the Greek-Cypriot government, which is not recognised in Ankara. Mr Erdogan has promised to oblige, but time is short for this change to be ratified by all interested parties (including the European and Turkish parliaments).

However mildly such criticism is couched, Turkey does not react well to western prodding. When the EU's man in Ankara, Hansjörg Kretschmer, spoke recently of “slippage” in Turkey's reforms, there was an angry response from the foreign minister, Abdullah Gul. “Who does he think he is?” the minister demanded.

A sense of drift in Ankara has deepened with the defection of eight government deputies, including the liberal culture minister, Erkan Mumcu. Mr Erdogan has yet to appoint a top EU negotiator. The government has failed to finalise laws on tax reform, banking and social security, and as a result, its stand-by agreement with the IMF has yet to be renewed. Tensions with America over Iraq, and over a planned visit to Syria by President Ahmet Necdet Sezer, have added to the jitters.

What do pesky foreigners such as Mr Kretschmer have in mind when they dare to criticise Turkey? He cited restrictions on property holdings and educational activities of religious minorities, including the Greek Orthodox Patriarchate, and police brutality—and this was before March 6th, when television showed policemen beating women demonstrators in Istanbul. The EU enlargement commissioner, Olli Rehn, was in Ankara that day; his horror grew as his hosts defended the police and scolded local media for “telling tales” on Turkey.

The prime minister may be trying to assuage hardliners who resent his failure to make the changes they seek most; they want him to ease curbs on Islamic headscarves, and to repeal laws that stop graduates of Islamic schools that train future imams from entering secular universities. Or, more worryingly, Mr Erdogan may be influenced by a resurgence of Turkish nationalism, which has surfaced in various nasty ways. The Turkish bestseller lists have recently featured Hitler's “Mein Kampf”and “Metal Storm”, a pot-boiler depicting an American invasion of Turkey. The Islamist and far-right press is awash with stories of Christian missionaries converting hapless Muslims throughout Anatolia; and of suspect foreigners, notably Greeks and Israelis, snapping up Turkish land. Last week the constitutional court invalidated a law allowing foreigners to buy

property in Turkey. This prompted some EU officials to ask whether Turks really want to join the European club.

The answer, say most pollsters, is still a resounding yes. Most pundits think the new mood does not signal a rejection of Europe: they see it as a reaction to global events, including American policy in Iraq, or a response to the anti-Turkish sentiment which is rising in many parts of the EU—and to the EU's failure to ease the trade embargo on northern Cyprus.

In the past few days, there have been some signs of the government shaking off its inertia. Mr Gul has just reaffirmed Turkey's commitment to EU membership. Six policemen involved in beating women on March 6th have been suspended. The government has promised to change the new penal code after protests by journalists. And after much hesitation, Mr Erdogan will visit Israel for the first time in May.

If the government has been spurred back into life, some credit may go to the army. Last week, a top general accused the government of having “no policy” on Iraq. That an officer was willing to break the army's EU-inspired silence may have prodded Turkey's political masters into a fresh burst of energy—and a fresh bid to point the country westwards.

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Turkish alcohol duties

Beer wars

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Critics attack sharp increases in alcohol taxes

IF FOREIGNERS needed any reminding that investing in Turkey is risky, they should look no further than the beer industry. Over the past two years taxes on beer have risen by a huge 450%, to three-and-a-half times the European Union average. After the latest increase, Denmark's Carlsberg, which entered the market with a $220m investment in 2001, accused the government of reneging on promises not to put taxes up.

With a can of Turkish beer now costing over 15% more than its equivalent at a British supermarket, “it's obvious that sales will go down and therefore so too will the government's tax revenues,” says Muhtar Kent, boss of Turkey's biggest brewer, Anadolu Efes Pilsen. And it is not just the brewers who are crying into their beer. Taxes on wine, whisky and other spirits have risen at similarly dizzying rates. Only raki, the national drink, has been spared, with an increase in duties of around 150% in the past couple of years.

This has raised cries of discrimination from the EU, with which Turkey has a free-trade agreement. Yet raki prices are themselves so steep that toxic home-distilled products have flooded the market, claiming as many as 23 lives in Istanbul alone in the past three weeks. Pro-secular Turks have another concern. They say it is no coincidence that booze prices have rocketed since the government of Recep Tayyip Erdogan came to power two years ago. After all, they say, Mr Erdogan's AK party wants to enhance the role of Islam in daily life.

The government retorts that it needs to raise revenues. But this line looked weaker when the finance minister, Kemal Unakitan, told a Turkish newspaper that “we can hardly tell them not to drink, so we warn our citizens [against drinking] by raising taxes.” Fatih Altayli, a columnist at the daily *Hurriyet*, opined that “no one should be surprised if they soon offer tax rebates to those who pray five times a day and perform the *haj*.” That view may be exaggerated—but investors in businesses involving alcohol may still want to avoid Turkey.

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Charlemagne

Debasing the currency

Mar 23rd 2005
From The Economist print edition

European Union leaders tear up fiscal rules even as they fight for their new constitution

Get article background

THE euro coins jingled merrily across the bar of the European Council's Justus Lipsius building in Brussels at this week's EU summit. The cash machine in the marble lobby delivered crisp new notes on demand. Three years after euro notes and coins first began to circulate in 12 EU countries, the euro is an unremarkable fact of everyday life. Yet for all that, it also remains an experiment. Indeed a deal arrived at by EU finance ministers over the weekend, and later endorsed by the summit, underlines just how experimental the single currency still is.

The agreement was, in essence, to rip up the existing fiscal rules for euro members and start again. For eight years finance ministers have steadfastly insisted that the stability and growth pact is essential to the health of their single currency. The pact's demands for fines on countries that persistently run budget deficits bigger than 3% of GDP have been defended as an essential tool to stop improvident governments from undermining the euro. But now the rules have been so loosened that they have been rendered almost entirely meaningless.

Officially, of course, this is not what has happened. This week's agreement bore the Orwellian title, “Improving the operation of the stability and growth pact”. The European Commission claims that the essential features of the pact are untouched: the 3% limit on deficits is still in place, as is the goal of avoiding a national debt bigger than 60% of GDP.

The trouble is that, largely at the behest of France and Germany, which have violated the 3% ceiling for three years in a row, a raft of possible let-outs and exceptions have now been written into the pact. Governments can now avert the threat of sanctions by pointing to any recession, however shallow, or even just to a persistent period of slow growth. And various forms of virtuous-sounding spending are to be given special consideration, including education, research, defence, foreign aid and anything that contributes to “the unification of Europe”. This last phrase was put in to appease the Germans, who argue that it is the costs of German unification that have pushed their budget over the limit. Yet when the original stability pact was adopted in 1997, Germany had already been unified for six years. Citing its effects now is, as the Austrian finance minister cruelly observed, “a bit of a joke”.

The European Central Bank clearly does not believe the reassuring spin emanating from Brussels. Shortly after the new deal was announced, it issued a statement that it was “seriously concerned”. The ECB hinted that it might respond to a new bout of fiscal incontinence in the euro area with higher interest rates. It still subscribes to the logic underlying the stability pact: that a single-currency area without a single government needs strong and enforceable rules to contain national budget deficits. The alternative, it is held, would be to risk “moral hazard”, in which a profligate government was able to spend recklessly, safe in the knowledge that the consequences of its actions, in terms of a weaker currency or higher interest rates, would be shared out among all euro members.

There is plenty of evidence that governments, knowing that the pact's sanctions are never likely to be enforced, have been increasingly ignoring the 3% limit. As many as five of the 12 euro-area countries have now breached the ceiling. The worst offender is Greece, which confirmed this week that its deficit for 2004 was a shade over 6% of GDP. But does any of this matter? The long-predicted revenge of the financial markets against either the euro area as a whole or individual countries has yet to materialise. Traders seem more preoccupied by America's twin deficits than by fiscal problems in Europe. Even as the stability pact has unravelled over the past year, the euro has risen steadily against the dollar. When EU finance ministers delivered their final *coup de grace* to the pact this week, the markets at last reacted—but only with a very modest fall in the euro's value against the dollar.

All dead in the long run

The most compelling arguments for the stability pact were always longer-term. The ageing of Europe's population means that public spending on pensions and health care is projected to soar over the next 30 years. If European governments cannot balance their books now, what hope do they have in future? This week Standard & Poor's, a credit-rating agency, suggested that, if current fiscal trends persisted, French debt would be rated as junk by the early 2020s. German and British (and, incidentally, American) debt would go the same way over the following 15 years. Yet this prediction contains a seed of comfort for those alarmed by the demise of the stability pact. For it makes the point that the markets are increasingly likely to distinguish between the bonds issued by different European countries. Traders could downgrade French debt, while happily buying euro-dominated paper issued by the thrifty Dutch. The moral hazard argument may be a lot less convincing than the original designers of the stability pact thought.

Such theoretical and long-term issues tend not to weigh heavily with EU leaders when they lock themselves away for a summit. Getting through the next election—or just the next press conference—is a far greater worry. This week's summit, supposedly about economic reform, was overshadowed by fears that French voters might reject the draft EU constitution in their referendum on May 29th. In response, Jacques Chirac, the French president, came to Brussels to poke gaping loopholes through a plan to liberalise trade in services. His fellow leaders duly obliged him by agreeing to rip up the draft. Nobody could reproach them for lacking zeal in protecting the EU constitution (the next stage in the European project). It is just a pity that their actions over the stability pact suggest they are unable to live with the consequences of treaties they have already signed up to.

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Government figures

The numbers game

Mar 23rd 2005
From The Economist print edition

The government is keen on figures. That does the figures no good

BRITAIN'S undeclared general election campaign has already seen the politicians trading numbers as boxers trade punches. There is nothing new in such statistical slanging matches. What is new is an underswell of worry about what has been happening to official statistics under the Labour government.

One of the most important figures for Gordon Brown when presenting his pre-election budget on March 16th was the current-budget balance. This is the gap between current revenues and current spending. It matters to the chancellor of the exchequer because he is committed to meeting his own "golden rule" of borrowing only to invest, so he has to ensure that the current budget is in balance or surplus over the economic cycle.

Mr Brown told MPs that he would meet the golden rule for the current cycle with £6 billion ($11.4 billion) to spare—a respectable-sounding margin, though much less than in the past. However, the margin would have been halved but for an obscure technical change announced in February by the Office for National Statistics to the figures for road maintenance of major highways. The ONS said that the revision was necessary because it had been double-counting this spending within the current budget.

Oliver Letwin, the Conservative shadow chancellor, pointed out that the timing of the ONS decision was "very convenient for the government". The ONS said that it was duty bound to correct numbers that were wrong. However, it also revealed that it had been aware of the problem since late 2002, which raised a question about the long delay in addressing it. The ONS explained that it had been seeking to agree a common approach with European statistical offices.

If this were an isolated incident, then it might be disregarded. But it is not the first time that the ONS has made decisions that appear rather convenient for the government. Mr Brown aims to meet another fiscal rule, namely to keep public net debt below 40% of GDP, again over the economic cycle. At present he is meeting it but his comfort room would be reduced if the £21 billion borrowings of Network Rail were included as part of public debt. They are not thanks to a controversial decision by the ONS to classify the rail-infrastructure corporation within the private sector, even though the National Audit Office, Parliament's watchdog, said its borrowings were in fact government liabilities.

As with the road-maintenance episode, the ONS denied there had been any political interference. It said it had followed European standards in determining that Network Rail belonged to the private sector. But whatever the rights and wrongs of the two decisions, they have left the ONS struggling to explain them. "Both incidents put a question-mark over the capacity of the ONS to demonstrate its integrity and independence," says Richard Alldritt, chief executive of the Statistics Commission, an advisory body.

These stories are linked by a larger political theme. When Labour came to power, it took the view

that governments thought too much about inputs, and not enough about outputs. It therefore set a range of targets for the public sector, which include Mr Brown's fiscal rules, and hundreds more besides. As a result, its credibility is bound up with the official figures that measure how it has performed against these targets.

This makes it particularly worrying that the official figures can show one thing, whereas the public experiences another. One of the highest-profile targets for the NHS is that no patient should spend more than four hours in a hospital accident and emergency department. Government figures show that by mid-2004, the target was being met for 96% of patients. But according to a survey of 55,000 patients by the Healthcare Commission, an independent body, only 77% of patients said they stayed no more than four hours in A&E.

The worry is that the official figures start to reflect a parallel world created by administrators striving to hit the target. A report by the Public Administration Committee of MPs in 2003 cited evidence where targets for A&E maximum waiting times “were being circumvented by imaginative fixes”. A recent survey by the British Medical Association of A&E departments found that only 26% thought the figures submitted for the waiting-time target were a true reflection of their performance.

The more that ministerial reputations ride on statistics, the more protection statisticians need from political interference. Current arrangements fail to deliver that protection. A code of practice states that decisions on statistics are for the National Statistician to make. However, the ONS is formally one of the chancellor's departments; the National Statistician, who heads the ONS, is ultimately accountable to the chancellor. There is no independent scrutiny of the government's performance against targets.

One way to help restore public confidence in official statistics would be to make the ONS independent, as the Conservatives and Liberal Democrats have suggested. Another would be for the National Audit Office to assess how the government has been performing against targets, as the Public Administration Committee has recommended.

Recent data suggest there is a need to restore public faith in the numbers. In an opinion poll last October, 68% of respondents said they believed official figures were changed to support a particular argument; 58% thought there was political interference in their production. It isn't just the statisticians whose reputations suffer as a result. The government hoped to use figures to prove to voters how well it was doing. But if the voters don't believe the numbers, it can't.

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Gypsies and politics

Unsettling

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Why gypsies are on the electoral menu

MICHAEL HOWARD, the Conservative leader, put on his best scowl this week to advertise his party's plans to be nastier to gypsies than the other parties. The Tories said they would think about repealing the Human Rights Act, whose European origins make it especially suspect, and would also change laws on planning and trespassing, forcing the unsightly itinerants to clear off. Where they might go was not discussed. But those nice folks at the *Sun*, who declared "war on gypsy free-for-all" on their front page earlier in the month, approved of Mr Howard's stance.

Gypsies are not popular neighbours. They are said to steal, spoil the view and make a mess. Tory MPs say their postbags are full of complaints about them. But this resentment is probably not related to increased numbers. There has been an increase in the gypsy population in recent years, according to Pat Niner of Birmingham University, but only a slight one.

Instead, the sudden interest in the Conservative proposals is explained by changes in gypsy behaviour, plus a shot of old-fashioned prejudice. A shortage of legal sites for gypsy caravans—largely the result of changes introduced in 1994 by Mr Howard when he was in government—has led to an increase in illegal ones. Eight out of ten council sites have waiting lists, according to a recent study, which makes parking a trailer about as difficult as mooring a boat on the Côte d'Azur in August. To find a berth, gypsies have become skilled at exploiting the sluggishness of Britain's planning process—buying land, settling on it and waiting for a retrospective planning decision on whether they can stay. The illegal sites tend to be larger, and therefore more disruptive, than legal ones.

Happily for Mr Howard, the arguments over whether he was wrong to single out an already-vilified group to make electoral capital (see Bagehot) have kept attention away from the substance of his party's proposals. These rest on two assumptions: first, that gypsies get special treatment under the Human Rights Act, which protects them from the planning rules that apply to the "settled community"; and second, that the Irish Republic fixed its gypsy and traveller problem by making trespassing a criminal offence. Both are wrong.

"If you are a traveller," Mr Howard said, "you can use the so-called Human Rights Act to bend planning law—building where you like." But the Human Rights Act has little to do with the problem. Gypsies, like anybody else, can apply for planning permission retrospectively. If the planning process is slow, that is not the fault of the Human Rights Act. Some 80% of gypsies' planning applications eventually get turned down. Occasional court victories against rejections are not, according to George Summers, who works with gypsies on behalf of Hampshire council, down to human rights.

Under English law, the Human Rights Act works like an extra weight on the scales, according to Urfan Khaliq of Cardiff University. If councils force gypsies to move on but don't provide anywhere for them to go, then human rights can come into play. Conversely, if the gypsies are breaking the law and making unreasonable demands on the council, human rights law can count against them.

Copying Ireland might not suit Mr Howard either. Although trespassing is a criminal offence under some circumstances in Ireland, the Irish law also forced local authorities to adopt five-year programmes to “meet the existing and projected accommodation needs of travellers”. So, rather than cracking down, the Irish government has increased the number of legal pitches. “Local authorities have made great inroads into the provision of sites,” says its environment ministry.

The ropiness of his proposals may not bother Mr Howard. His campaign will move on quickly, leaving the public reassured that his party is tough on gypsies and on fishy human rights. But the Tories will find it hard to sound like a credible government if they carry on making proposals that are slightly less useful than a sprig of lucky heather.

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Journalism

Stop press

Mar 23rd 2005
From The Economist print edition

Why top universities are getting interested in journalism

OXFORD UNIVERSITY is planning to set up a journalism institute. The scheme is not an attempt to cash in on the popularity of "media studies", but a high-minded plan to use the university's clout to improve standards in British journalism. This week, the vice-chancellor set up a working group to get the idea going.

The idea has some heavyweights behind it—Timothy Garton Ash, an Oxford professor and journalist, Tim Gardam, a former director of programmes at Channel Four and now principal of St Anne's college, the Reuters Foundation, an educational charity linked to the news agency, Alan Rusbridger, editor of the *Guardian*, and John Lloyd, a senior journalist at the *Financial Times* (which owns 50% of *The Economist*).

All believe that there is a problem with the quality of British journalism. One issue is its silliness—the obsession with celebrity gossip and manufactured scandal that has spread from the popular papers to the qualities. Last week, the British Press Awards, the industry's annual shindig, gave its "Newspaper of the Year" award to the country's most downmarket Sunday paper, the *News of the World*; "Scoop of the year" went for a story about a footballer's adultery, gained largely by use of the editorial cheque-book. Drunkenness at the awards, and their downmarket tone, have led 11 editors to say they will boycott them in future. Some backers of the new Oxford outfit would like it to have its own awards, on the lines of America's Pulitzer prizes.

Another issue is intrusion. The Press Complaints Commission, a toothless official watchdog, recently censured the *Mail on Sunday* for a story it wrote about a government minister and his wife who adopted a baby in America. The newspaper argued, in all seriousness, that by speaking to a family friend it had gained consent to publish details of the couple's medical history. A third problem is accuracy. Lies of the sort the editor of the *New York Times* resigned over in 2003 barely raise an eyebrow in Britain.

Why is the British press so lowbrow? Presumably because of the shape of the newspaper market. American papers enjoy local quasi-monopolies, and can therefore afford to be high-minded. In Britain, ten national papers slug it out daily, competing for readers who seem more interested in exciting stories than accurate ones, and in sensationalism than in sensitivity. Editors mostly ignore criticism, or retaliate by hurling mud at critics. In this atmosphere, having a finely developed ethical sense may be a handicap.

Oxford is not the only institution interested in this issue. The London School of Economics is the best-known of several universities that are beefing up their media-studies programmes.

Will academic censure temper the drive for circulation? Just possibly. Regular rubbishings by high-profile critics may threaten commercial interests. After it was revealed that the editor of the mass-market *Daily Mirror* had published faked photos purporting to show British troops abusing Iraqi prisoners, shareholders took the view that this was bad for the product and got him sacked.

Anyway, the newspaper business has never been entirely commercial. Owners' vanity plays a part, too. If the academics can prick the proprietors' *amour propre*, there's a chance they might change the British press.

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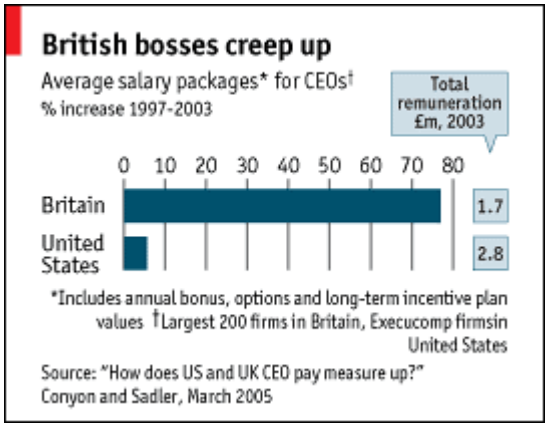
Boardroom pay

Compensation culture

Mar 23rd 2005
From The Economist print edition

The pay gap between British and American bosses is shrinking

Get article background


British bosses creep up
Average salary packages* for CEOs†
% increase 1997-2003
Total remuneration £m, 2003
0 10 20 30 40 50 60 70 80
Britain
1.7
United States
2.8
*Includes annual bonus, options and long-term incentive plan values †Largest 200 firms in Britain, Execucomp firmsin United States
Source: "How does US and UK CEO pay measure up?" Conyon and Sadler, March 2005

COMPANIES, sales and profits are all bigger in America than in Britain, so it's not surprising that bosses' pay is as well. But, according to a new paper,* the Brits are catching up—though they've still got a long way to go.

In 1997, the average British chief executive of one of the top 200 British companies took home £955,000 ($1.56m). The typical boss of a comparable sample of American companies was paid £2.68m, nearly three times as much. By 2003, the gap was down to 1.7 times: British bosses' pay had risen 77% to £1.69m ($2.76m), compared with only a 6% rise (to £2.83m) in America (see chart). Looking at the median rather than the arithmetic average (ie, mean) shrinks the gap even further: by 2003 the figures were £1.29m and £1.55m , a difference of only 20%.

As the totals have got more similar, so have the pay structures. Although salaries for British chief executives are about 20% higher than for Americans, they are becoming less important as a component of pay, accounting for 52% of total compensation in 1997, but only 41% in 2003. That's closer to the American model, where CEOs are paid relatively small salaries and make most of their money from variable pay like bonuses and stock options.

So what's changed? The authors make several suggestions. New tax rules in Britain have made stock options an attractive option for boards, and new corporate governance laws, enacted earlier than America's Sarbanes-Oxley act, may have led chief executives to demand higher pay in return for extra responsibilities. Seeking talent from outside a firm has become more common, and tends to be more expensive.

But the main reason, says Graham Sadler, one of the authors, is globalisation. The market for CEOs has become one of the world's few truly global labour markets, and price differences are therefore eroding. British firms must pay more to keep their bosses, who may be lured by American companies with fat chequebooks. But globalisation should help to keep American pay deals down, too, as bosses there face price competition from cheaper foreigners.

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* "How does US and UK CEO pay measure up?" Martin J. Conyon, University of Pennsylvania, and Graham V. Sadler, Aston Business School, March 2005.

School meals

Hot cross mums

Mar 23rd 2005
From The Economist print edition

The row over school dinners is missing the point

ALL sorts of odd things get caught in the slipstream of an election campaign. The latest improbable object is the Turkey Twizzler. A television series in which one of the country's best-known chefs, Jamie Oliver, has transformed the diet of children at Kidbrooke School in south-east London, has gripped the nation, and the twizzler has become an emblem of the gastronomic ghastliness of British schools. The government has set up a new quango in response, which is what governments do when they don't want to be seen to be doing nothing, but expect an issue to go away of its own accord.

There is a temptingly simple way of looking at the issue: an ignorant government, skinflint local authorities and money-grubbing catering companies conspire to fill children up with the cheapest junk food—"scrotum-burgers" as Mr Oliver memorably put it—based on ingredients that can cost as little as 37p per serving (good private schools allow twice that). So the kids become obese, hyperactive and can't concentrate.

Private contractors, however, are beside the point: they provide only a fifth of the school meals eaten. And they are, if anything, more scrupulous about content than are local-authority providers. Compass, one of the biggest catering companies, now refuses to tender for contracts in which the ingredient cost is below 55p. Paul Kelly of Compass says that more expensive ingredients and proper kitchens could increase uptake and thus keep down costs over the longer run.

The main problem in school meal economics is not that schools are short of cash, but that they, and parents, are scared of making themselves unpopular with children. Only 45% of children eat school dinners. Double that, and the average cost of a meal—which includes fixed costs such as labour and administration, as well as the grub itself—comes crashing down, leaving more room for good ingredients.

The reason why less than half of children eat school dinners is that most pupils are allowed out of school at lunch time. They take their dinner money to the local burger bar rather than eat school meals. If what's on offer is unfamiliar or funny-tasting, they are even more likely to. The only way to get them to eat more school food would be to stop them going out or food coming in. They would hate that.

Changing the rules would be easier with parents' support. But not all parents are quite as concerned about these issues as the current furore suggests. If they were, Turkey Twizzlers would not whizz off the supermarket shelves quite so fast.

Mr Oliver's programme offered graphic evidence of where the fundamental responsibility lies. When he cut the junk-food options from his school dinners, furious parents passed their hungry children burgers through the playground railings.

Economist.com WORLD EUROPE

Constitutional reform

Trials and tribulations

Mar 23rd 2005
From The Economist print edition

Britain finally gets a Supreme Court

IN 1867, Walter Bagehot demanded that England set up a Supreme Court—a “great conspicuous tribunal” to rule all others. It was about time, the editor of *The Economist* believed, for the House of Lords to relinquish its peculiar status as the nation's highest court. Bagehot's wish was finally granted this week, when Parliament narrowly approved a bill to establish a Supreme Court. Constitutional reform is a slow process, although the pace of change has been too rapid for some.

Labour's third major reform of the way Britain is governed (the first two devolved powers to Scotland and Wales and removed hereditary peers from the House of Lords) was ineptly handled. Plans to set up a Supreme Court were abruptly announced in June 2003 during a cabinet reshuffle. At the same time, the government declared it was abolishing the office of Lord Chancellor. The holder of that ancient post was head of the judiciary and a member both of the cabinet and the House of Lords—an anachronism, but one that struck some judges as a good way of protecting their interests.

With the judges and the Lords in revolt against “constitutional vandalism”, the government was forced to compromise. Under the new bill, the office of Lord Chancellor will be reformed but the title will remain. The senior judiciary gets a formal promise that its independence will be preserved. It also wins the right to appoint its own members. The government had wanted to pick new Supreme Court judges from a shortlist drawn up by members of the court; now it will have to accept or reject a single candidate.

Britain's Supreme Court will not be one of the world's most powerful. Because the nation lacks a written constitution, the judges cannot plausibly claim to be guardians of any scriptural “rule of law”. As before, parliamentary legislation can be struck down only by Parliament.

Over time, though, the Supreme Court is likely to grow in power and political confidence. Part of the reason is geographical. As soon as arrangements can be made, the judges will be plucked out of the House of Lords and installed in their own building on the other side of Parliament Square. That alone will encourage them to think of themselves as a separate organ of state.

But the law lords would have become more politically involved even without help from the government. Thanks to the growth of administrative law and, even more important, the 1998 Human Rights Act, a court that used to spend much of its time deciding tax cases now rules on the legality of executive actions and even on the validity of Acts of Parliament. Last December, it declared that the government could not justify holding foreign terror suspects without trial. Ten years ago, such a decision would have been impossible. With a few confident judges at the helm, Britain's Supreme Court may find the lack of a constitution only a slight hindrance to judicial activism. Israel's highest court has grasped power by creatively interpreting the country's “basic laws”.

For that reason, the government may come to regret its decision to give up control over the

appointment of judges. So may the judges. As Robert Stevens, of the University of London's Constitution Unit, points out, a self-appointing oligarchy is vulnerable to the charge that it is standing in the way of popular reforms. “The judges will have less protection than if they were appointed by the government,” he says. Recent home secretaries such as David Blunkett and Michael Howard have feuded with the judiciary. Future disputes may make those squabbles seem minor.

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Public-sector pensions

Reforms reformed?

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The government backs down in the face of union pressure

IN THE budget on March 16th, the government was busy ingratiating itself with electorally important groups like old people and house-buyers. Two days later, it was doing the same with its civil servants.

The civil servants accuse the government of behaving imperiously and not consulting them over changes to public-sector pension schemes. As a result, some 1.5m of them had threatened to strike. The government has now backed down and promised further talks.

The issue is important because of the cost involved. The Pensions Commission reckons that the public sector's unfunded pension liabilities amount to £475 billion. Stephen Yeo, an actuary with Watson Wyatt, reckons the true figure is £690 billion. Demographics and gloomy equity markets mean that private pensions have become markedly less generous, but public-sector ones have, so far, escaped unscathed. The state sector employs 18% of Britain's workforce, but accounts for 36% of the value of its pension rights.

The government's headline proposal was to raise the normal retirement age from 60 to 65, bringing public schemes into line with private ones. The unions dislike that idea, arguing that changes in private-sector arrangements have no bearing on pensions provided by the state.

Some observers suspect that the government is stalling in order to postpone dealing with the issue until after the general election expected in May. That would be understandable. Few people can bring themselves to care about the arcane details of public-sector pension policy, but a big strike by government workers a few weeks before an election would generate a lot of bad publicity.

According to research from the Pensions Policy Institute, the effects of the planned changes would not be huge. Public-sector pensions would still be more generous than their private alternatives, even if the government's proposed reforms went ahead. The Institute reckons that having a public-sector pension is worth an extra 5-20% on top of salary compared with a private one. With the government's reforms, that would drop to 3-18%.

Yet the sums involved are so vast that even trimming public-sector pensions a little could cut the costs to taxpayers noticeably. If the government's plans survive unscathed, the cost of keeping civil servants in hydrangeas and bungalows is projected to rise from 1.5% of GDP today to 2.3% in 30 years' time. Without the reforms, that would rise to 2.5% of GDP, says Mr Yeo. That small difference could have quite an impact on the tax bill. With the reforms, income tax would have to rise by 2.5p in the pound; without them, by 3.25p.

Is the government really caving in, or is it just trying to put off a difficult decision? The unions, presumably, reckon that the former is a distinct possibility, or they would not have agreed to put off their strikes. It would make sense. The unions are grumbling now, but those tax rises are

many elections away.

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The Victoria Cross

For valour

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From The Economist print edition

One area of life where standards certainly aren't slipping

ON MARCH 18th, Pte Johnson Beharry, an armoured-vehicle driver in the British army, who was wounded last year in Iraq, became the first soldier to win the Victoria Cross (VC), the nation's top gong for gallantry, in 23 years. As an advertisement for equal opportunities, it was a masterstroke. Mr Beharry is black and grew up poor on the Caribbean island of Grenada. As a morale-booster, moreover, to an army bruised by recent scandals, including abuses against detainees in Iraq and recruits at home, the award seemed conspicuously timely. No doubt the government, struggling to shake off its critics over Iraq, was also pleased. Yet conspiracy theories are out of place.

As evidence that politics played no part in Mr Beharry's decoration, consider first his valour. As insurgency raged across southern Iraq last May, Mr Beharry's patrol was ambushed, and several of its members wounded. With his vehicle aflame, Mr Beharry drove through a barricade, then carried the wounded to safety. Less obviously, consider the history of the medal, which suggests it has become both increasingly apolitical and difficult to win.

Soldiers have always been cynical about medals, and rightly so. After the Crimean war, when the first VCs were struck, Queen Victoria herself handed out 62. In another bloody and politically-damaging fight, the Indian Mutiny, 24 were won in a single day. In the last century, the VC was the only medal for gallantry that could be given posthumously. This was partly a legacy of the first world war, when living heroes were often hard to find. Unusually, the VC has always been available to all ranks and hues—to Germans, to Gambians and, in the second world war, to Malta.

Since then, the VC has seldom been given. Mr Beharry is the first living recipient since two Australians who fought in Vietnam won it. The award's criteria have been rigidly observed. The recipient must have shown near-insane bravery when to do otherwise would have earned no rebuke. His daring must have been witnessed by three comrades—which counted against a member of the Special Air Service put up for the VC after the Falklands war by the Argentinians who killed him.

British top brass reckon that for every VC given, 25 deserving cases are overlooked. “If you're still alive, you don't deserve it,” soldiers say of the medal. Not that Mr Beharry should expect cruel jibes from a grateful army. When he has recovered from headwounds received in a second ambush in Iraq, Mr Beharry says he wants to be sent to Afghanistan. That can probably be arranged.

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Bagehot

High pitch, low politics

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Dog-whistle politics can take you only so far

OVER the past few weeks, a new expression has entered the Westminster lexicon: dog-whistle politics. It means putting out a message that, like a high-pitched dog-whistle, is only fully audible to those at whom it is directly aimed. The intention is to make potential supporters sit up and take notice while avoiding offending those to whom the message will not appeal. As with many vivid idioms, its origins are Australian. It seems likely that Lynton Crosby, the Tories' Australian campaign director, is responsible for importing dog-whistle politics to Britain.

Dog-whistle politics explains why the Conservative leader, Michael Howard, has been making such a big thing out of illegal gypsy and traveller encampments this week and why the Tories are determined to keep up the attack on the government's immigration policies. On March 22nd, Peter Lilley, a former Tory minister, published a pamphlet entitled “Too Much of a Good Thing” attacking government claims about the economic benefits of immigration. Both Mr Howard and Mr Lilley were scrupulous in the language they used. Mr Howard made it clear that gypsies' ethnicity was not an issue. All he cared about was “fair play” and “standing up for the right values”. Mr Lilley argued that “some immigration is essential”. Only large-scale immigration of the kind the government had allowed was damaging.

Nothing that Mr Howard or Mr Lilley said could fairly be described as racist. A Labour MP's claim that Tory plans for dealing with the gypsy problem had “the whiff of the gas chamber about them” was absurd. Yet it is also true that racists, bigots and the millions of people who are neither of those things but whose fears are fanned daily by a mendacious press will have pricked up their ears and listened to a message aimed squarely at them. And just in case there was any question about who and what the Tories were appealing to, Mr Howard issued his statement on gypsies astride a platform emblazoned with the party's rather creepy campaign slogan: “Are you thinking what we're thinking?” Thinking, but not quite saying, in other words.

When not shamelessly pandering to prejudice, the Tory campaign has been a series of hit-and-run ambushes on the government's record. Egged on by the Tory tabloids, who have tired of Mr Blair and are desperate to help the Conservatives make a fight of this election, issues come and go with bewildering speed. For a couple of days, immigration dominates the headlines, then hospital waiting lists, then abortion, then tax, followed by gypsies and tax again. The BBC seems willing to go along with a news agenda set by the right-wing and populist *Daily Mail*. All are agreed that the Tories are doing surprisingly well in making the running against a flat-footed government. Labour, its once lightning-fast campaigning reflexes dulled by eight years of office, ploddingly tries to bat away one accusation, while another, entirely different, flies past its ears.

In his saturnine way, Mr Howard, for the first time in months, has looked as if he is enjoying himself. Excitable Tory MPs, taking heart from the vigour and slickness of their party's campaign and further encouraged by a couple of opinion polls last month that showed a narrowing of the gap with Labour, were daring to hope that in response to Mr Howard's whistle the voters were at last pricking up their ears and paying attention. Enough of them, perhaps, to cast doubt on the

outcome of the election.

Yet maybe Mr Howard is merely whistling up his most faithful hounds. The challenge for the Tories hasn't changed. It is to find a way to appeal beyond their base vote of about 32% to some of the solid 60% of the electorate who support parties of the centre-left. When Mr Howard took over as leader of the party in November 2003, he made some of the right noises, but the policies he inherited from his predecessor were left more or less unchanged. Worse, the one good thing that Iain Duncan Smith was associated with—an incoherent but sincere attempt to identify the Conservative Party with the needs of the poor and the excluded—was forgotten.

Oliver Letwin, the shadow chancellor, hints that when the party reveals the rest of its tax plans at the beginning of the official election campaign they will be aimed at reducing the burden on poor working families rather than bribing middle England. He maintains that any tax cuts should say something about how the Tories would like to be seen as a party. Mr Letwin does his best to give his party a more pleasing aspect, but with Mr Howard and Mr Crosby in charge it is thankless work.

Whistling in the wind

Even on its own limited terms, their snarling campaign may already be running out of puff. ICM, whose poll for the *Guardian* last month raised Tory hopes, this week dashed them again. It wasn't just that Labour, following last week's budget, had extended its lead over the Conservatives from three points to eight, although that was bad enough.

Worse, ICM revealed that Labour is well ahead of the Conservatives on seven out of the eight issues that voters say are most important to them. Only on immigration and asylum did the Tories have a lead, and only 8% of respondents said it was the most important issue to them. Most ominously, Labour was rated as the best party to manage the economy by 41% of voters compared with 24% for the Conservatives. In January, a poll by Populus for the *Times* found similar strength for Labour on the big issues. Labour may have disappointed them in all sorts of ways, but for all that, the voters who Mr Howard must reach are still comfortable with it.

Mr Howard's problem is the one which Robert Jackson, a Tory MP who defected to Labour in January identified. “I think that Michael is privately a nice man,” said Mr Jackson. “Publicly he only has two registers. One is scorn and the other is anger and that is too limited a range.”

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Economist.com BUSINESS

Hostile takeovers

Shaking up corporate Japan

Mar 23rd 2005 | TOKYO
From The Economist print edition

Reuters

As takeover fever grips Japan, will regulators come to the aid of the status quo?

WHILE an aggressive young upstart fills them with terror, Japan's old-guard managers hope that a miracle drug will soon soothe their frazzled nerves. The medicine they seek is the “poison pill”: a takeover defence developed in America in the 1980s, after hostile corporate acquisitions took off there. With the infamous cross shareholdings among Japanese firms unravelling and return-seeking investors gaining influence, there has long been talk that a similar, if smaller, takeover trend may start in Japan. Since last year, some civil servants have been preparing for this by trying to clarify the rules of the corporate-control game. This low-level debate has recently grabbed the national spotlight, however, thanks to Takafumi Horie (pictured), the 32-year-old head of Livedoor, an internet company. Mr Horie has boldly challenged a broadcasting industry run by slow and sleepy men twice his age.

Since last month, Mr Horie, a university dropout, has captivated Japan by taking on—with dreams of taking over—a big and badly run broadcaster, Fuji TV. By gobbling up shares in after-hours trading, Mr Horie was able quickly to bypass reporting rules and amass a big stake in Fuji TV's subsidiary, Nippon Broadcasting System (NBS), acquiring more than half of the voting rights. As NBS owns 22.5% of Fuji TV, this has raised the spectre of Livedoor using its NBS beachhead to mount an assault on Fuji TV itself. Fuji TV responded by hurling the corporate equivalent of boulders and boiling oil down the ramparts at the advancing enemy. Thus have Japanese viewers grown enraptured by the debate—reported with soap-opera intensity on TV—over the proper way to launch and defend against a corporate takeover.

Entering the death spiral

Mr Horie has grown his firm—once called Livin' on the Edge—mostly through mergers. The financing of the current bid has been especially controversial. Lehman Brothers gave Livedoor the money in exchange for “death spiral” convertible bonds, which give Lehman the right to convert the bonds into shares at a constant discount to the share price. This, in effect, would reduce the value of Livedoor's shares—indeed, Livedoor's shareholders may already be suffering from that. There has been talk that, because of its Livedoor role, Lehman will struggle to find new clients in Japan (though if Mr Horie triumphs, such talk will surely end). Two weeks ago Eisuke Sakakibara, a former top finance ministry official once known as “Mr Yen”, resigned abruptly from Lehman's advisory board, apparently because of the controversy surrounding the bid.

The courtroom is the latest battlefield. NBS's board has tried to dilute Livedoor's stake by issuing warrants to Fuji TV, which could be converted into shares. Mr Horie took the company to court and has won several times, including most recently in the Tokyo high court on March 23rd. Even so, Fuji TV is considering announcing its own new plan to dilute Livedoor's stake in it by issuing new shares of its own.

But whatever the ultimate outcome of the battle between Mr Horie and Fuji TV, for corporate Japan as a whole the real action is just beginning, thanks to civil servants from the economy, trade and industry ministry (METI). Although these bureaucrats are flying a reformist flag, there is every risk that they will mow down progress in a blaze of friendly fire. The reason? METI is advancing “rights plans”—ie, poison pills—as part of a new set of corporate-takeover rules.

This follows the recommendations of a panel of wise men that METI set up six months ago to look into such issues. The basic ideas they settled on are that bidders should be more free to launch takeover attempts; that boards of directors should take these bids seriously, for a change; and that while boards consider such bids or mull over alternative offers, they should be allowed to slow down a takeover.

In fairness to METI, these ideas coincide with other reforms that could do some good. On March 22nd the government submitted to parliament a new corporate law, backed by METI, that could make starting a small company or spinning off a division just a bit easier. The new rules will also make it possible for foreign firms to pay for deals using their own shares. But, maddeningly, ruling-party politicians voted to impose a one-year delay on this overdue reform. This was widely viewed as having been done in response to lobbying from Japanese firms nervous of foreign bids.

Still, all of this pales in comparison with METI's efforts to set clear rules for mergers and acquisitions. METI's misguided argument is that even America and Britain allow practices that corporate boards can use to slow down and thwart takeover attempts. They argue that this allows directors to consider all offers calmly during a takeover battle, and so reward their shareholders by attracting the highest bid from the most eligible suitor.

This is a spurious argument. It is true that in both America and Britain—two economies reputedly friendly to shareholders—managers nevertheless can throw up barriers to change and gum up the market for corporate control. But there are many instances in both countries in which this has clearly harmed shareholders, not helped them. And even if on balance these rules benefit investors in American and British firms—which is debatable at best—that is because both of those countries also have long-established laws and institutions that aim to protect the interests of shareholders. The boards of directors of British and American firms, for instance, have a clear fiduciary duty towards those shareholders.

Japan has none of these advantages, and it will take time and relentless pressure before they take root. So what METI is proposing, in effect, is to imitate much of what is wrong with Anglo-American corporate governance—which bosses of Japanese firms will no doubt do quickly—while starting a rudimentary and time-consuming effort to copy some of the good bits.

A better way to spur progress would be to let the battles that Livedoor and others have begun play out further, all the while urging boards of directors to shape up. Fuji TV, for example, should not have been surprised by Livedoor's takeover bid. Minority investors in Fuji TV had complained for years about its cross-shareholding arrangement with NBS, and yet were rudely ignored. Thanks to Livedoor's tactics, however, Fuji TV has recently decided to more than double its dividend from ¥2,000 ($19) to ¥5,000. This has terrified other Japanese managers, who are loth to concede that their cash flows belong to their shareholders. But if METI's plan succeeds, expect much of corporate Japan to try to ignore the fiduciary bits, swallow the poison pill and drift back into a pleasant slumber.

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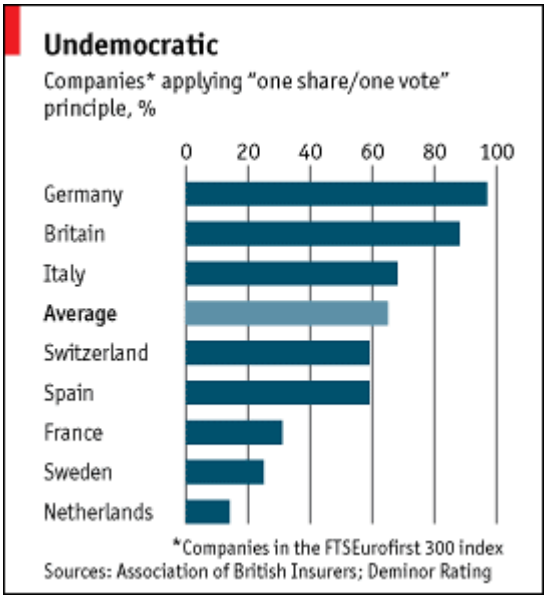
Corporate governance in Europe

What shareholder democracy?

Mar 23rd 2005
From The Economist print edition

Europe's unfair voting rights

IT IS not just in Japan that shareholder power is not all it's cracked up to be. The owners of public companies the world over frequently find themselves powerless. In America, shareholders sometimes must contend with poison pills that stop them selling their shares to a bidder that the board dislikes, and even more often with rules that allow managers to decide which motions shareholders can vote on at their firm's annual meeting. In Europe, meanwhile, shareholders count themselves lucky if they even have a vote.



A new study prepared for the Association of British Insurers (ABI) by Deminor Rating, a Belgian governance consultancy, highlights the weakness of European shareholder democracy. As the chart shows, only two-thirds of the big European firms included in the FTSE Eurofirst 300 index operate a rule of one share, one vote. In the other third of firms, power tends to be concentrated in the hands of a minority of big shareholders who control a majority of the voting rights.

Practice varies widely across Europe. A mere 14% of the firms in the sample from the Netherlands allow their owners one vote per share; 25% of the Swedish firms; and 31% of the French companies. Things are far more democratic in Germany (97%) and Britain (88%). One-fifth of the companies issue shares with multiple voting rights, giving additional votes to selected shareholders. One in ten firms imposes a ceiling on the number of votes that can be exercised by any one shareholder, irrespective of how many shares he owns.

The ABI, which represents a group of big institutional shareholders, commissioned the study because of its frustration with the failure of the European Union's new takeover directive to require fair votes for shareholders. This failure, points out the ABI's Peter Montagnon, means that Europe is unlikely to develop soon the lively market for corporate control that it urgently needs.

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Boeing v Airbus

See you in court

Mar 23rd 2005
From The Economist print edition

The subsidy row between America and Europe is becoming an eternal triangle

AP

Get article background

HISTORY suggests an unsatisfactory ending to the current row over aircraft subsidies between America and Europe. The last similar dispute to go to the World Trade Organisation (WTO) was in the 1990s, when Canada and Brazil traded accusations over subsidies for Bombardier and Embraer, makers of regional jets (seating up to 100 passengers) in the respective countries. The WTO found both parties guilty. Neither country applied sanctions. Subsidies continued to flow.

The dispute over subsidies to Airbus and Boeing would be the biggest yet to go to the WTO—which now seems likely after the breakdown last weekend of talks between America and the European Union (EU)—and any sanctions resulting from it could have nasty knock-on effects for other trade negotiations. Nor is the dispute itself as straightforward as the earlier one.

America wants an end to Europe's soft government loans, known as “repayable launch aid”. These allow Airbus to develop new models safe in the knowledge that much of the “borrowed” development money will be written off should the new aircraft not sell well. In practice, Airbuses now sell like hot cakes and governments collect royalties on the aid even after the principal and interest are paid off. Yet should, say, the new Airbus A380 not achieve 500 sales, Airbus's parent company EADS (and its one-fifth partner BAE Systems) will not have to repay any of the $3.7 billion of soft loans advanced to get it off the ground. On the other hand, Boeing, says Airbus, has long received subsidies indirectly via development contracts from NASA, America's space agency, and from the Department of Defence.

In 1992, Europe and America agreed that Airbus's launch aid would be limited to one-third of development costs, while indirect aid to Boeing would be capped at 4% of its total revenues. But last year America tore up this bilateral deal and demanded an end to Airbus's launch aid, declaring that the 1992 agreement had required it to be phased out over time.

One reason for this new tough stance was that Airbus had started to outsell Boeing and, worse, seemed to be successfully launching the A380 to end the age-old long-haul monopoly of Boeing's 747. Airbus has outspent Boeing both on research and development and on capital investment, making its production perhaps one-quarter more efficient than its rival's.

Another reason, suspect some Europeans, is that America knew it was already breaking the bilateral deal. Direct financial support had been provided for the production of bits of Boeing's new 787 jet by the states of Washington and Kansas.

Under the WTO's Subsidies and Countervailing Measures agreement, subsidies to a specific company or specific industry from a government or other public bodies are not allowed. Airbus's launch aid is surely in breach of this, and America would have a good case before the WTO.

Yet the EU too could probably bring a strong case to the WTO. However, this would probably not be just against Boeing, but also against the American firm's Japanese business partners. The new Boeing 787 is being built with the heavy-industry divisions of Mitsubishi, Kawasaki and Fuji, in a consortium known as the Japanese Aircraft Development Corporation (JADC). According to an assessment by David Pritchard and Alan MacPherson of the State University of New York, Buffalo, JADC is being offered at least $1.5 billion in soft loans repayable only if the aircraft is a commercial success, like the launch aid enjoyed by Airbus.

In January, with much fanfare, America and the EU agreed to hold talks for three months (up to April 11th) rather than go to the WTO with the formal complaints that each has prepared. The EU trade commissioner seemed optimistic, and even George Bush said recently that the dispute was manageable. The idea was to go for a limited deal, addressing further issues, such as Japanese aid, later. But the talks have now ended acrimoniously, after the EU—probably sensing that its beloved launch aid is doomed, sooner or later—suddenly demanded that the Japanese aid also be included in the negotiations.

According to industry sources, America is hoping to prolong the process to delay launch aid for Airbus's A350 plane, a spoiler being rushed out to counter Boeing's new 787. But Airbus's boss, Noël Forgeard, says the plane will go ahead without launch aid if need be. The chances are that America, its delaying tactic having achieved nothing, will file a WTO suit next month—with the EU retaliating soon after.

Curiously, this classic national champions' subsidy row has erupted just as the civil aircraft business is becoming truly global. Not only has Boeing outsourced development and production on its latest plane to Japan, it has also changed its business model, selling its large Wichita factory for making fuselages to a private-equity firm. This firm is likely to tout for business from Airbus as well as Boeing. Boeing's defence arm previously sold a huge machine shop in St Louis to a British firm, GKN. The new owners hope to win work from several aerospace firms. Indeed Airbus and Boeing already spend over $5 billion a year each in their rival's backyard, often using the same suppliers.

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Mexican airlines

Low-cost take-off

Mar 23rd 2005 | MEXICO CITY
From The Economist print edition

Is this the year that low-cost flying finally gets off the ground in Mexico?

AP

Should have gone by plane

Get article background

IF ANY country is long overdue for low-cost air travel, it is Mexico. With just over 100m people, a large, growing middle-class, and vast distances to travel, the country is, says Keith McMullan of Aviation Economics, a consultancy, an “absolutely ideal market”. Yet the concept has hardly got off the runway—a tribute to too many years of government over-regulation of Mexican aviation. Until now, that is.

The most obvious sign that change is in the air is the government's recent announcement that, after years of dithering, it is to sell off the country's two main airlines, Aeroméxico and Mexicana. Both are owned by Cintra, a holding company created by the government in 1995 (and still 60% state-owned) to rescue the airlines from bankruptcy after the collapse of the peso. Since then, the two have had a near-duopoly in Mexico's skies, keeping prices high and restricting access to the market. Bucking the global trend, Cintra even made a modest profit in 2004.

Now Cintra is to sell the two airlines separately—plans to dispose of them as one entity having been dropped. Mexicana will be sold in combination with a new low-cost domestic carrier, as yet to be announced. And Aeroméxico will be sold with Aerolitoral, a regional carrier.

Cintra expects the sales to take place later this year. But politics may yet interfere. Privatisation is unpopular. With a presidential election due in July 1996, left-wing candidates could make it an issue.

American low-cost airlines are already nibbling at the market share of the big national carriers. Unless Cintra gets on with creating its own low-cost airline from a position of strength, the new

competitors may become entrenched. Like everyone else, Mexicans appear to be ready for low-fare travel, even if that means forgoing their in-flight tequila and beef.

One of the most valuable markets is for travel between Mexico and the United States, where an estimated 20m people of Mexican origin now live. American low-cost carriers such as Frontier and America West already fly to Mexico from cities relatively near the border. Another, JetBlue, may start to fly there later this year.

Ash Huzenlaub, an entrepreneur in Fort Worth, Texas, is starting a new low-cost carrier, Mexus Airlines, to serve this lucrative traffic. He plans to start flying this year, as long as he gets the landing slots. He says that none of his flights will cost more than $300, on routes that today can cost twice that. Mr Huzenlaub argues that the current Mexico-America traffic of about 15m passengers a year is artificially depressed by the high fares of the Mexican duopoly. The big American full-cost airlines that fly to Mexico charge even more. Cheap flights, he says, would get the millions of Mexican-Americans who go back and forth across the border out of their buses and into the air, expanding the market closer to 30m.

But it is not just the *gringos* who have big ambitions for Mexico's low-fare market. Many Mexican businessmen have long reflected on the success of the Brazilian low-cost carrier, GOL, which now has over 23% of its own internal domestic market. Mexican operators want to replicate GOL's prowess in competing with the bus operators. In Mexico, which has no passenger-train network, most domestic travel is done by bus. Journeys can be long, arduous and often quite expensive. Already, one Mexican low-cost airline, Azteca, has entered this market, although it has not done nearly as well as GOL. Protego and A Volar, two new airlines, are said to be going through the regulatory hoops, and may announce definite plans for their operations later this year. All in all, the consumer, not the government, is now dictating the pace of change, and it will soon be cheaper to fly down Mexico way.

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Economist.com BUSINESS

China's courts

Winning is only half the battle

Mar 23rd 2005 | BEIJING
From The Economist print edition

Congratulations, you've won your case. Now go away

AFTER years of haggling with business partners, wrangling with bureaucrats and then pleading their case in Chinese courts, Alex Liu and his fellow foreign investors were thrilled last November when they won a court ruling in the north-eastern Chinese city of Dandong. But in the months since, Mr Liu and his group have been struggling anew—and so far in vain—to get anyone to take responsibility for implementing their favourable verdict.

Mr Liu, a Canadian, heads a group of international businessmen that invested nearly $8m in a hotel, only to be cheated out of it when a local partner illegally transferred old debts onto the books of the new venture. An intermediate court placed the indebted hotel into receivership, leaving Mr Liu's group with nothing. That order was overturned in an opinion issued by the Liaoning Provincial High Court—but none of the officials charged with executing that judgment have yet seen fit to act.

The failure to enforce legal judgments is a common and stubbornly persistent feature of the Chinese legal system, and afflicts foreign and local plaintiffs alike. According to a 2004 article in the *China Law and Governance Review*, Chinese courts command little obedience to their decisions, especially when they affect officials or government departments. Judges responsible for implementing court decisions report high levels of political interference. Some of that interference, while illegal, is based on policy considerations. But much of it is due simply to corruption.

Nationwide it is estimated that, at best, only 60% of court rulings are enforced. That can drop to 10% when courts entrust officers in other jurisdictions to enforce rulings for them. Even in Beijing the value of unexecuted civil and economic rulings in the first half of 2003 was double that of the rulings that were enforced. Things can be far dodgier in out-of-the-way places such as Dandong—

as Mr Liu and his partners have learned. Now their frustration has driven them to stage modest public demonstrations (pictured). These soon attract the attention of local police, but, alas, not the sort of attention they have been seeking. They are probably no closer to solving their problem.

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Economist.com BUSINESS

Business software

Softwar or hard?

Mar 23rd 2005 | WALLDORF, GERMANY
From The Economist print edition

SAP, the world's leading business software firm, is on the defensive

CALL it the platform wars. A battle has broken out among the firms that supply software to large businesses. These firms are invading each others' markets and fighting over acquisitions. At stake is nothing less than whose technology will become the underlying infrastructure for modern business computing.

This week, after a bidding war, Oracle outbid SAP, a German software firm, to acquire Retek, which supplies software to the retail industry, for around $670m. The sum is paltry, but the deal is highly symbolic. It highlights the challenge that both companies face in order to grow. Both SAP and Oracle dominate the market for enterprise computing, but in different parts of it. SAP is the world's largest seller of applications that let large firms integrate their operations across business units, and with partners and customers. Oracle, the world's biggest database firm, is now selling the applications that sit atop its databases. Last year, for instance, Oracle bought a combined PeopleSoft and J.D. Edwards, which are applications firms, for $10.3 billion, after a long court fight with America's trustbusters and resistance from PeopleSoft's managers. SAP gained customers during the fight.

As the market for sophisticated business software for large firms becomes saturated, and growth slows, Oracle and SAP are trying to move down-market to supply small and medium-sized firms. To this end, they are looking to buy software firms in narrow niches, such as retailing or banking. As well as providing them with products, users of those software applications can potentially be shifted onto the new owner's technology platform (thereby, hopefully, locking them in as customers).

For SAP, the platform is NetWeaver (and its successor, due in 2007), which is software that sits above a database and links together applications. To increase its chances of success, “it is a platform that we will open up to other players, that will build innovation,” gushes Henning Kagermann, the boss of SAP. Third-party developers will be able to sell software that works alongside SAP applications, using NetWeaver interfaces.

Oracle, meanwhile, believes that the crucial platform is the database, in which it has almost 60% of the market. It is moving into applications in order to offer the platform as part of an integrated system. “The reason you see these companies get into each other's businesses is that customers are asking the larger vendors to take more responsibility for the infrastructure,” says Charles Phillips, president of Oracle.

Two giants are also lurking on the fringes of the war. Mighty Microsoft has bought several firms to sell products for the small business market (but is struggling to integrate them). IBM disdains selling applications and, for now, is focused on its software platform, WebSphere, wary of hurting its services business by competing against its partners.

SAP and Oracle seem destined to fight for some time. A lawsuit between the two firms is looming:

in January, SAP bought TomorrowNow, a firm that offers maintenance and service to PeopleSoft and J.D. Edwards users, as a way to migrate them away from Oracle and onto the SAP platform—something that Oracle's boss, Larry Ellison, ominously warns may be in violation of Oracle's intellectual property.

Customers, eventually, seem likely to switch to one of the platforms of the four big software companies—SAP, Oracle, IBM and Microsoft—though this is less imperative in an era of open standards and services provided online. For SAP, the toughest challenge will be to convince the larger universe of software developers and systems integrators to work on its NetWeaver platform. The business of openness, and keeping partners happy, will be a relatively new one for the firm, whose strength lies in classical German engineering rather than in touchy-feely American motivational techniques.

Yet engineering the platform matters: it is akin to the Lego board on which all other pieces are placed. “Who you are as a customer will be defined by what platform you're running on,” says Joshua Greenbaum of Enterprise Applications Consulting, “and what platform you're on tells you to which vendor the money trail leads”.

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Economist.com BUSINESS

Moore's Law at 40

Happy birthday

Mar 23rd 2005 | SAN FRANCISCO
From The Economist print edition

The tale of a frivolous rule of thumb

AP

Moore the merrier

IN APRIL 1965, the worldwide semiconductor industry had annual revenues of about $2 billion. It would be three more years before Gordon Moore, an electronics boffin, co-founded a company called Intel. *Electronics Magazine*, a publication that Mr Moore remembers as “one of the throw-away journals”, asked him to opine on a trend or two. So he did. In prose that was passable for a numbers guy, Mr Moore imagined the possibility of “home computers” and “electronic watches”. Oh, and he “blindly extrapolated” from progress he had noticed in the preceding years that the number of “components” (by which he meant transistors and resistors) on a silicon chip would probably keep doubling every year or so.

“It turned out to be much more accurate than it had any reason to be,” snickers Mr Moore today, 40 years on, savouring the understatement. His off-the-cuff guess held true and, in the 1970s, was dubbed “Moore's Law” by his friend Carver Mead. Mr Moore could not bring himself to utter the phrase for about 20 years, he says. Yet as his “law” became famous he found himself compelled to update it. In 1975, he projected a doubling only every two years. He is adamant that he himself never said “every 18 months”, but that is how it has been quoted, and proven correct, ever since.

All this is somewhat beside the point. Mr Moore's message has always been simpler: that the cost of computation, and all electronics, appeared certain to plummet, and still does today, thus allowing all sorts of other progress. And, indeed, for four decades, Moore's Law has served as shorthand for the rise of Silicon Valley, the boom in PCs (which even surprised Mr Moore, who had forgotten that he had predicted home computers), the dotcom boom, the information super-highway, and other exciting things.

Reflecting on it today, as chairman emeritus of Intel, the largest firm in a global industry 100 times bigger than it was in 1965, is clearly fun. Software “frustrates” Mr Moore, who spends half his time in Hawaii, playing online games and such. But his law seems safe for at least another decade—or two to three chip generations—which is as far as he has ever dared to look into the future. As things are made at scales approaching individual atoms, he says, there will surely be limitations. Then again, the law has often met obstacles that appeared insurmountable, before soon surmounting them. In that sense, Mr Moore says, he now sees his law as more beautiful than he had realised. “Moore's Law is a violation of Murphy's Law. Everything gets better and better.”

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Face value

Why Ask Jeeves?

Mar 23rd 2005
From The Economist print edition

Getty Images

Barry Diller continues his search for the ultimate online experience

Get article background

"IT'S A hell of a lot more fun and interesting than arguing over which actor should play what part in whatever movie," says Barry Diller. "I did that for 20 years of my life." Mr Diller, the Hollywood mogul turned internet pioneer, was explaining last year why the movie business now held less allure than buying yet another dotcom to add to his online conglomerate. This week he went shopping again and snapped up Ask Jeeves, a search website, in an all-shares deal worth $1.8 billion.

Mr Diller's InterActiveCorp (IAC) is a curious invention put together by an enigmatic man. Its future health may depend on how internet search evolves. Searching for information, products and prices through sites such as Google, Yahoo!, Microsoft's MSN and AOL is now one of the main uses of the internet, and the hottest area for online advertising, through the use of sponsored links. But Ask Jeeves trails in sixth place behind this bunch, with only a 1.8% market share, says Nielsen//NetRatings, a firm of analysts. And competition is increasing. Amazon too has developed a powerful new search facility, called A9.

But this business is relatively new and Mr Diller reckons there is still much to play for. After all, who would have forecast only a few years ago that Amazon would sell more consumer-electronic goods than books? Or that eBay's hottest online auction category would be used cars? Or that online search could be a hugely profitable business? (Not even Microsoft foresaw that, which is why it initially ignored the search business.)

IAC is only nine years old. Mr Diller became captivated by the internet only after a successful career at Paramount Pictures, ABC, Fox Broadcasting and, finally, USA Networks (whose TV, cable and other entertainment assets he sold to France's Vivendi Universal for more than $10 billion in 2001). In recent years he has mostly been shopping online. In 1999, Mr Diller tried to merge with Lycos—then a hot “portal” which many said would come to rule the internet. The deal was sunk by shareholders, although Mr Diller still wonders about what might have been. Perhaps Lycos might have been the “unifying force” that he hopes Ask Jeeves will now become for his various businesses.

Using IAC's various operations, a customer can get a date (or at least try, with match.com); book a flight (Expedia.com); find a hotel (hotels.com); make a restaurant reservation (Citysearch); take in a show (ticketmaster.com); buy a wedding ring (Home Shopping Network via TV or the internet); find a home (realestate.com) and a mortgage (lendingtree.com). So far, however, even Mr Diller cannot marry you online.

As a group, despite Mr Diller's past talk of huge cross-selling opportunities, these businesses have never entirely connected up. Certainly there are synergies, says Mr Diller, and in some areas these have been exploited—such as links between lendingtree.com and realestate.com. But the result has left IAC rather difficult to understand and—more annoyingly for Mr Diller—its shares valued less generously than those of more focused internet firms such as Google or Amazon.

So, Mr Diller is planning later this year to split up IAC. One part will be called Expedia, and will include all the travel-related businesses, and the other will continue to be called IAC and will be made up of the rest. In the fourth quarter to the end of December 2004, IAC's travel revenues grew by 11% to $496m, out of IAC's total revenue of $1.7 billion. Lumping all the businesses together was slowing IAC's growth, says Mr Diller. IAC was often perceived only as a travel company, because Expedia has become the world's leading online travel agent.

Like some investors, Mr Diller worries about “disintermediation”—the internet's ability to eliminate middle-men. The popularity of booking travel online has already driven many bricks-and-mortar travel agents out of business. Could search eventually do the same thing to online travel agents? Airlines, hotels and car rental firms increasingly want to drive bookings to their own websites, rather than rely on online agents to whom they must pay a commission. New search engines could give web surfers the ability to simply enter their travel itinerary and let the search engine get the best prices directly from suppliers.

Search and search again

That is one reason why Mr Diller has decided to bolt a search firm on to IAC. But is Ask Jeeves, which was founded in California in 1996, the right one? It has a long way to go to catch up with the likes of Yahoo! and Google. But people often use more than one website when searching—especially when looking for product and price information. So perhaps Mr Diller can persuade more surfers to try Ask Jeeves—which works slightly differently from its bigger rivals, seeking answers to questions written in ordinary language rather than as a series of keywords.

One way Mr Diller could try to boost the market share of Ask Jeeves is to feature its search box on his many websites. However, any hint that the results of a search on Ask Jeeves were being deliberately swung towards IAC websites could do serious damage; most users expect search engines to be impartial. As for advertising, Ask Jeeves gets most of its revenue from ads brokered for it by Google; will that relationship survive? The greatest opportunity may be to apply Ask Jeeves to the wealth of local information carried by Citysearch. Local search is one of the most dynamic areas in internet search and offers the potential for a vast local online-advertising market.

Mr Diller, who at 63 has been in business for a couple of decades longer than most other dotcom bosses, clearly has a challenge on his hands. But for the one mogul of old media who has consistently made the right bets on the internet—contrast IAC with Time Warner's disastrous merger with AOL—navigating the evolving e-commerce business remains far more captivating than anything Tinseltown now has to offer.

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Correction: Bernie Ebbers

Mar 23rd 2005
From The Economist print edition

In our story about Bernie Ebbers on March 19th, we said that most experts expect Mr Ebbers "to receive a 20-to-25-year sentence. With time off for good behaviour, he might serve half that." In fact, parole for good behaviour is no longer available for convicts serving federal sentences, though time spent in jail may be cut by up to 15% under a "good time" provision. Mr Ebbers will be sentenced on June 13th.

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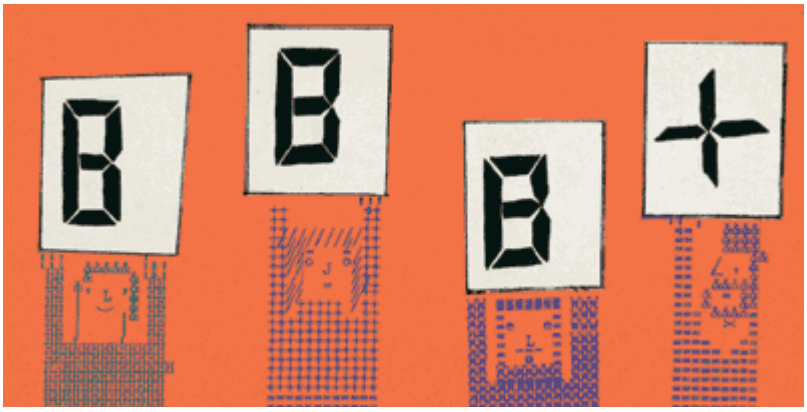
Economist.com FINANCE & ECONOMICS

Credit-rating agencies

Who rates the raters?

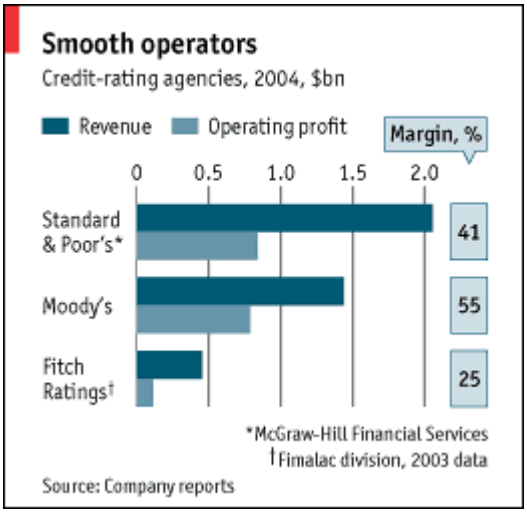
Mar 23rd 2005 | LONDON, NEW YORK AND WASHINGTON, DC
From The Economist print edition



The credit-rating industry is curiously devoid of competition and oversight. It needs more of both

STARTING in 1909, a dense book from John Moody would thud on to subscribers' desks in America, following days or even weeks in the post. The annual railroad-bond ratings were out. America's fledgling debt markets moved accordingly.

Moody's business still thrives almost a century later. Credit ratings—assessments of the likelihood that an issuer will default on the interest or principal due on its bonds—now shoot through the market at internet speed and cover bond issues of all kinds. Whether a company has the highest possible AAA rating or a BBB- plays an important part in determining the rate at which it can borrow. In America only a bold or foolish company, municipality, state or even school district would try to issue debt without first getting a rating from Moody's, Standard & Poor's (S&P), its chief rival, or Fitch, a French-owned upstart that has become the world's third-biggest rating agency (see chart).



The leading ratings firms have lucrative franchises and face only limited competition in a business that, thanks to the growth of global capital markets, has greatly expanded. These days, S&P, for example, rates $30 trillion of debt, representing nearly 750,000 securities issued by more than 40,000 borrowers. All three big raters are highly profitable, with Moody's enjoying the highest operating margin—of more than 50% of revenues.

Credit ratings have been embraced by financial markets

because they mostly do what agencies claim they do—accurately predict the likelihood of defaults. The agencies' overall long-term record is a good one (see table).

Good grades

Cumulative average corporate default rates* 1981-2004, %

Rating	1 year	5 years	10 years	15 years
AAA	0.00	0.10	0.45	0.61
AA	0.01	0.30	0.85	1.35
A	0.04	0.61	1.94	2.98
BBB	0.29	2.99	6.10	8.72
BB	1.20	11.25	19.20	22.59
B	5.71	25.40	33.75	38.63
CCC/C	28.83	50.85	56.45	59.44
Investment grade	0.11	1.20	2.71	3.92
Speculative grade	4.91	20.22	28.25	32.42
All rated	1.64	7.08	10.45	12.51

Source: Standard & Poor's *By years after initial rating

But they have also faced heavy criticism in recent years, for missing the crises at firms such as Enron, WorldCom and Parmalat. These errors, the agencies' growing importance, the lack of competition among them and the absence of outside scrutiny are beginning to make some people nervous. This month regulators in America, the biggest market for ratings, called for more oversight of the agencies.

As debt markets have expanded, ratings have been built into financial arrangements of all kinds. Mutual funds and government-run pension funds often restrict their investments to certain grades of bonds, typically excluding those rated as “junk”. The Basel 2 accords on bank-capital requirements, concocted by the world's central bankers and due to take effect in 2007, require regulators to use ratings in assessing banks' sturdiness. More controversially, during the era of corporate scandals it emerged that many banks had built so-called “ratings triggers” into their loan agreements. These meant that, if something happened to lower the borrower's creditworthiness to a specified level, the loans could be called in. Several high-profile cases, notably Vivendi in France, were trapped in liquidity crises as a result.

The agencies' power raises questions about their role and methods that have not been fully answered. Critics argue that the business is riddled with conflicts of interest because the raters are paid for their work by the bond issuers, rather than by investors who actually use the ratings (a change from old railroad-bond days). In addition, the big agencies are trying to grow consulting businesses that advise on matters which could affect their ratings, done by the same big agencies. This seems, at least on the face of it, a potential source of conflicts of interest.

S&P launched its “Risk Solutions” business in 2000, aimed mainly at helping banks meet Basel 2 requirements. Vickie Tillman, head of ratings at S&P, insists that “there is no relationship between that business and the ratings business; no mixture of personnel.” Moody's “Rating Assessment Service” offering does mix personnel—the company views it as an extension of assigning ratings—but Raymond McDaniel, Moody's president, says he does not expect this business's contribution to rise above 1% of annual revenues. Consulting units (Fitch has one too) compete head-on with investment banks, almost all of which have highly profitable teams that advise corporate clients on how to manage their finances in order to impress the raters.

Others in the industry are dubious about this development. “Firewalls are really good until it gets really hot,” says Glenn Reynolds of CreditSights, an independent credit-research firm. “It is an absolute parallel to what the auditors went through” when they tried to expand from auditing to consulting.

Indeed, the conflicts inherent in the agencies' business model have raised fears that the rating industry might be asking for regulatory trouble. The agencies are, says Mr Reynolds, “the most powerful force in the capital markets that is devoid of any meaningful regulation.” Sure enough, this month in America, William Donaldson, chairman of the Securities and Exchange Commission (SEC) told a Senate committee that Congress should allow him to regulate the industry.

That prospect alarms the big agencies, which are stoutly defending their role and business

practices and would prefer a voluntary code of conduct. They have begun by explaining more to outsiders, including journalists, how they work and what methods they use to set ratings. Critics have charged that many ratings are assigned almost arbitrarily. The agencies, of course, argue that they are impeccably thorough.

Step by step

When a company or government wants to issue debt, it usually calls a rating agency (or three, to boost credibility). Analysts then spend weeks, sometimes months, poring over data and interviewing company management. The team reports back to a committee of senior ratings staff. The committee formally decides the rating, although it usually follows the lead analyst's recommendation. If the issuer objects to the conclusion, some agencies allow it to veto the release of the initial rating. (When a new issuer has only one rating, the market may assume that a second rating is “hidden” in this way.)

Ratings are re-evaluated annually unless something happens that merits further attention. They change for many reasons—merger prospects, revenue shortfalls, regulatory changes and so on. Issuers retain the right of appeal if they feel wronged, although unlike an initial rating they cannot elect to “hide” subsequent ratings. The agencies say they will hear an appeal when the issuer provides new information or shows that their analysis is faulty, but they actively discourage sour grapes appeals.

But can an agency objectively assess a company that is paying its bills? Rating agencies argue that they manage this difficulty by barring analysts from involvement in fee negotiations. Further, say the raters, any individual issuer contributes only a tiny proportion of the rating agency's revenues, though some companies such as General Motors (GM) and General Electric would seem to carry more weight because they issue masses of debt. In this context, notes Ms Tillman, the fact that a recent study by a lobby group found one-third of issuers to be unhappy with their ratings is reassuring evidence that the potential conflict is, in fact, well managed.

The “issuer pays” conflict is more worrying when it comes to the rating agencies' efforts to acquire new business. Sometimes agencies issue a rating even when the issuer has not requested it and has no intention of paying for it. The agency must then rely on public information to decide the rating. In other words, if the firm paid up, the rating might be more accurate.

Targeted companies despise such practices, which Mr Reynolds of CreditSights describes as “the equivalent of extortion”. Carne Curgenven of Brit Insurance, a specialist insurer, has gone through this experience with his company's syndicate at Lloyd's, London's insurance market. Moody's has been rating the financial strength of the syndicate for years (S&P started more recently) without payment or agreement from Brit. Moody's methodology in particular, he says, caused him concern. But when he contacted Moody's, the response was that nothing could be done while the syndicate was not interacting: in other words, payment would open doors. Moody's says its methodology is “robust”, and that “a more accurate analysis is not contingent on payment.”

Rating agencies defend unsolicited ratings in two ways. First, they say that such ratings are designed to broaden their own understanding of the market. “If we want to be competing with S&P and Moody's, it's really bad if an investor phones us up and says ‘I saw your opinion on Ford, it was interesting, what do you think about BMW?’ And we say, ‘Actually, we don't cover them’,” says Paul Taylor, managing director of Fitch.

Second, the agencies argue that unsolicited ratings are the only way for new ratings competitors to get a foothold. This seems somewhat disingenuous coming from the likes of S&P, which hastens to add that “way less than 1%” of its ratings are unsolicited. Moody's says it discontinued

unsolicited ratings five years ago owing to widespread misunderstanding of the practice, though it continues to analyse a small number of companies (it will not say exactly how many) whose initial unsolicited ratings pre-date 2000.

Fitch probably does the most unsolicited rating—up to 5% of its portfolio. But it emphasises that it will accept information from a firm's managers even if it is not paying for a rating. Should the fact that a rating is unsolicited be disclosed to the market? Logic and practice say it should. S&P has only recently clarified its policy and now flags all unsolicited ratings. Fitch and Moody's also provide such flags.

Although critics generally accept the long-term validity of ratings, there has been vociferous criticism of the agencies' short-term performance. They conspicuously failed to predict the sudden collapses at Enron and WorldCom, which were rated investment-grade until the last minute. They were also slow to realise that senior managers at Vivendi were exploiting the agencies' traditional reluctance to force an issuer to make public highly sensitive internal financial information. In Vivendi's case, among other factors, hidden information about inter-company loans almost brought the company down.

We're not watchdogs

The agencies respond, reasonably, that they cannot be expected to spot frauds based on audited numbers or an intent to deceive them. But why, asks Frank Partnoy of the University of San Diego's law school, were the big agencies maintaining investment-grade ratings on Enron's debt when the bad news was mostly out and its share price had slumped to $3?

Similarly, how could S&P, Moody's and Fitch have been so oblivious to Asia's gathering financial problems in the mid-1990s (only to catch up with repeated downgrades once the problems were widely known)? And why do the agencies now keep ratings for GM and Ford just above investment grade, when the markets trade their bonds at spreads equivalent to junk status? The implication in all of these cases is that the agencies are reluctant to face the broader consequences of their decisions. By moving slowly, they avoid the accusation that their actions might lead to financial turmoil of one kind or another.

Rating agencies argue that speed is not their job—only accuracy. They are simply issuing a long-term opinion about credit-worthiness and not trying to move the markets, or ride the ups and downs of the business cycle. “Investors don't want volatility from credit-rating agencies,” says Mr Taylor. The agencies point out that they signal their intentions to the market ahead of a downgrade, typically by putting an issuer on “watch” status. But investors say that market prices are a better short-term indicator of trouble.

Big investment managers, equipped with their own bond-research teams, can profit nicely if they think the market has mispriced bonds in response to ratings decisions. “When the raters do something strange and spreads move significantly, we hope to take advantage of that,” says one. Enron's collapse, for example, proved a fantastic buying opportunity because the agencies, fearful of more scandal, slashed corporate-bond ratings. “A lot of companies' bonds traded at 50 to 55 cents on the dollar, but they weren't going under,” says Mark Kiesel, a strategist at PIMCO, a fixed-income manager.

Under-rated?

Perhaps the biggest shadow hanging over the ratings industry is its perceived lack of competition.

The business functions as an oligopoly. Upstarts have a hard time breaking in because it takes years, even decades, to build a sufficient reputation. “It is difficult for a rating agency to pop up because you need a 20-year track record,” says one asset manager. Fitch is an unusual case because it was formed from several established agencies. Mr Reynolds thinks this could happen again with, say, Indian, Japanese and European agencies coming together. Private-equity funds, he says, could help pull something together. Others in the industry think more sector-specific rating agencies will emerge.

Ironically, the only power which America's SEC really has over rating agencies is to designate which ones are acceptable—and for three decades that has effectively impeded competition. Plenty of pension funds and other investors stipulate that their bond investments must have a rating from a “Nationally Recognised Statistical Rating Organisation”, the SEC's designation. Some states have laws that specify S&P and Moody's. The fact that the SEC recently designated two more agencies as “nationally recognised” is misleading. S&P and Moody's still dominate the market, there and worldwide. The industry remains a duopoly or, at best, an oligopoly in important new areas such as structured finance (ie, repackaged pools of assets).

One result is that there is little price competition between agencies. When asked how Moody's sets prices, Mr McDaniel explains that it decides annually after assessing how much value its services add. “We do not base our prices on someone saying ‘we're going to get a cheaper deal down the street',” he says.

Fitch has been gaining ground as the third force in the business. In January it was admitted to the Lehman Brother's bond index, so its ratings now matter for all bonds included in that index. Following a similar move last year by Merrill Lynch, this was seen as an important stamp of approval. “Three is a big difference from just two,” says one asset manager.

Still, Fitch admits that it has not really prospered by stealing business from S&P and Moody's, but rather by expanding the use of ratings. “We've benefited greatly from companies going for more than two ratings,” particularly in America, says Mr Taylor. S&P and Moody's, he adds, are “so powerful that a company would be incredibly reluctant to drop their rating.”

In fact there are plenty of thriving local rating agencies, especially in continental Europe and Japan. European companies have traditionally held information close, and some have resented the idea of being assessed by a big American firm. But resistance has weakened. Mr McDaniel characterises Europe as a “very good growth opportunity” for Moody's, in particular for ratings for complex structured financings.

Large credit markets exist in China and India, where local rating agencies are springing up (S&P is in talks to increase its stake in one of India's biggest agencies). Other developing markets are also opening up, as firms there shift away from a traditional reliance on bank loans towards funding debt in the capital markets.

But for big international issuers of debt there is little choice, especially since they will often want a rating from at least two agencies. Regulators are waking up to the problem. This month the SEC recognised AM Best, which specialises in the insurance industry, as a nationally acceptable rating agency (Dominion Bond Rating Service, a Canadian firm, is the fifth officially sanctioned rater). Still, for many bond investors the imprint of S&P or Moody's will drive decisions for a long time to come. The system works, but, as one asset manager says, “You probably wouldn't invent” it to serve today's financial markets.

A natural oligopoly

Is there room for a fourth or fifth global agency? One might emerge, but there might also be a natural limit to how many can thrive. Issuers content to have three ratings on their debt, might not unreasonably balk at paying for a fourth. Indeed, real competition to the established rating agencies could come from other quarters. Plenty of small firms assess credit and, unlike the agencies, make buy and sell recommendations as well. These firms charge subscribers rather than issuers, so pension funds and other investment managers that lack the resources to monitor the bond market themselves could hire one of these outfits. “The market is requiring more intensive coverage,” says Kingman Penniman, who runs a research firm called KDP.

But the rise of independents, as well as the growing importance of other predictors of default such as credit-default swaps and other financial derivatives, are unlikely to slow down the expansion of the rating agencies' reach as financial markets continue to grow around the world. The agencies are now so woven into the fabric of the investment community that, barring a huge scandal, any changes are likely to be slow and incremental. Nevertheless, regulators have a reasonable case for gaining the power to monitor them a bit more closely. They should also encourage, as much as they can, more competition between the agencies—above all to avoid any transformational scandals like those which have already hit auditors and investment banks.

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Economist.com FINANCE & ECONOMICS

American bond markets

A sated appetite

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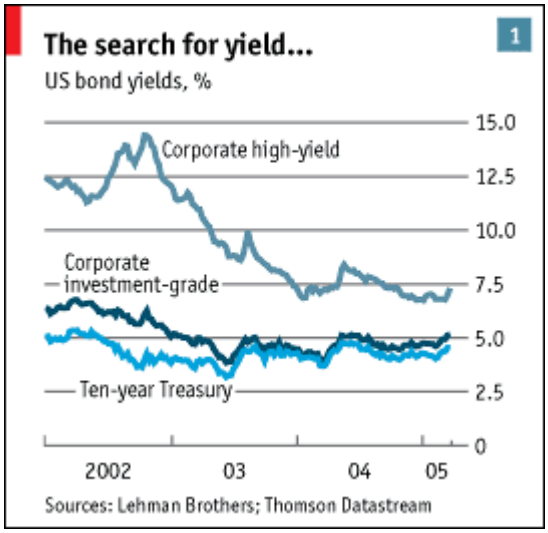
For the third time in five weeks, bond markets have weakened in the face of bad, but not terrible, news. They are cooling down, not melting down

THESE are anxious times on Wall Street, despite the sparkling quarterly results trotted out by the likes of Lehman Brothers and Morgan Stanley. The pall cast last week by General Motors' profits warning—which prompted selling of risky assets from junk bonds to emerging-market currencies—still hangs heavy in the air. On March 22nd the Federal Reserve dispelled a bit of the malaise by confirming expectations that it would raise short-term interest rates by only one-quarter of a percentage point, to 2.75%, and continue on its merry "measured" way. But it also pointed out that inflationary pressures had increased, and Treasury bonds fell further.

Investors have been spooked three times in the past five weeks, each time by old news. The latest catalyst was more than the revelation that a company once considered the symbol of a confident industrial America was losing money hand over fist: GM's troubles were well known and its bonds were already trading like junk. Rather, it was a cluster of concerns, including the high price of oil and other commodities, the likely impact of these and the weakening dollar on inflation, and the need to finance a widening current-account deficit. All suggested that sharply higher interest rates could be on the way and that the liquidity that has lifted all asset classes might be about to evaporate.

Are financial markets changing direction, and, if so, how fast and far will they move? There is little doubt that relative risks have become badly mispriced as investors

have pursued any sort of yield in a world of low returns. The gap between yields on high-grade corporate bonds and on Treasuries is wafer-thin; that for junk has narrowed even more dramatically (see chart 1). Investors have chased emerging-market debt just as eagerly—and only partly because some countries look sounder than before (see chart 2). Other assets, from property to pictures, are also pricey. Some think even shares dear—though these have not regained their old dotcom peaks.



If short-term interest rates are raised too sharply in an attempt to correct all this, a host of indebted players could stumble, from financial firms who rely on the "carry trade" (borrowing short and investing long) to leveraged hedge funds right down to mortgaged families.

Big investors have turned sharply negative on bonds of late. A survey of fund managers in March by Merrill Lynch, an investment firm, showed that 59% of the 302 participants were overweight in shares, the largest such bias on record. David Rosenberg, the firm's chief North American economist, points out that there has been a big swing in speculative positions in bonds, from 94,494 net long contracts at the end of February to a net short position of 106,188 contracts two weeks later.

For James Grant, editor of *Grant's Interest Rate Observer*, a newsletter, the tide turned some time ago: the great bull market that started in 1981 ended when the yield on ten-year Treasuries neared 3% in June 2003. He points out that there is less room for error now than two decades ago: when Paul Volcker was the inflation-busting Fed chairman and yields were between 7% and 15%, "you could be bullish and wrong every single day and still get enough on your coupon to break even."

James Bianco, of Bianco Research, an American firm, reckons that "this is not a meltdown, or not yet." For all the sound and fury, the yield on the benchmark ten-year Treasury bond has risen by less than 60 basis points (hundredths of a percentage point) in the past month or so. A year ago, yields rose by twice that much between March and May, and the markets regrouped and carried on upwards. However, Bill Gross, chief investment officer of PIMCO, a fund manager specialising in bonds, says that "we have seen the first cracks and it wouldn't take much to spook leveraged investors out of the market."

What might that something be? The most likely upset would come from a sharp spike in short-term interest rates, threatening the economic fundamentals on which global growth now rests: Americans consuming, the Chinese producing and foreigners recycling their surpluses by buying dollar-denominated securities.

The second possibility might be a dawning realisation that companies are not quite as financially robust as they say. Andrew Smithers, a British economic consultant, believes that Federal Reserve data do not account adequately for the vast sum (an annualised $395 billion in the fourth quarter

of 2004) that companies are spending to buy back their own shares. If both buybacks and overseas direct investment requirements are included, he finds that American companies actually had a financing gap between capital outlays and cashflow at the end of last year.

John Lonski, the chief economist of Moody's, a credit-rating agency, agrees. He also points out that last year 44 firms—a figure matched only in 2000—were downgraded for reasons related to shareholder payments. The moral, for Mr Smithers, is not that “the collapse of civilisation as we know it is imminent”, but that companies will almost certainly be spending less on their own shares. Their short-term borrowing has already picked up.

The rapid growth of credit derivatives, now a nominal $8 trillion in total, might also provide some shocks. Vincent Kok, head of global fixed income at State Street Global Advisors, a large institutional asset manager, worries that the market has opened the door to investors such as hedge funds that are highly leveraged several times over. For Mr Bianco, the risk is that the market has grown too quickly and, like stock futures and portfolio insurance a generation earlier, could spiral out of control, overwhelming the underlying cash market. Not a crisis, perhaps; but the brightest days look over.

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Economist.com FINANCE & ECONOMICS

The Philippines

Mixed economy

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Amid fiscal crisis, the Philippines' stockmarket booms

Get article background

IS THE Philippine economy on the brink of a crisis or the verge of a boom? It depends on whom you ask. Rating agencies, transfixed by stubborn budget deficits and ballooning public debt, are gloomy. One, Moody's, demoted the government's bonds by two notches in February; another, Standard & Poor's, downgraded them by one notch in January. Some commentators think that the Philippines, with a consolidated public-sector debt of almost 140% of GDP, is heading for Argentine-style meltdown and default. Investors, on the other hand, are sanguine: the stockmarket is near a five-year peak and the peso at its highest against the dollar since July 2003. Applications for investment incentives more than doubled in 2004 and are up again so far this year.

There is no denying the government's financial problems. Interest payments account for a third of all public spending. The budget deficit, despite much belt-tightening, came in at 3.9% of GDP last year. The tax take, meanwhile, was a mere 14% of GDP. Last August, the president herself gave warning that the country was in the midst of a fiscal crisis.

However, since then there have been some encouraging developments. Regulators have approved a rise in the price of electricity, helping to stem huge losses at Napocor, a state-owned power firm. The normally deadbeat Congress has passed two revenue-raising measures (the first for seven years) and a budget (the first since 2003). Among other much-needed reforms, the new budget slashes “priority development assistance funds”, a polite term for congressmen's publicly financed personal slush funds. The abstemious legislators are now in the process of raising value-added tax, although the two chambers, the House of Representatives and the Senate, are at loggerheads over the size of the increase and the extent of exemptions.

Most analysts reckon the government needs to boost its income by at least 75 billion pesos ($1.4 billion), or another 1.5% of GDP, to put its finances on a sustainable footing. But Mar Roxas, a senator, worries that the measures Congress is working on will not raise that much. If it does not, this year's deficit may well pass the target of 3.4% of GDP, and leave the government behind schedule in its plan to balance its budget by 2008.

The markets do not seem too concerned. The gap between the yields on Philippine and American bonds actually decreased after the recent downgrade, and has only recently begun to rise again, in line with other emerging-market debt. That suggests that traders think the Philippines' fiscal woes are easing, not growing.

The budget deficit has, after all, fallen from a record of 5.4% of GDP in 2002. Moreover, the situation of the Philippines differs from that of Argentina before its default in that much of the public debt is owed to governments and multilateral agencies, rather than to private lenders. More important still, the economy is growing. GDP swelled by a healthy 6.1% last year, helping to

increase government revenue. Exports and remittances from Filipinos working overseas grew even faster.

That helps to explain why Philippine shares are doing so well, despite the government's fiscal straits. The stockmarket is only now recovering from the Asian crisis of 1997, argues Luz Lorenzo, of ATR Kim Eng Securities, a brokerage firm. The main market index is still only two-thirds of its level in 1996, despite rising by 42% in 2003 and by another 26% last year. This month, the first big initial public offerings since 1997 have helped to stoke investors' interest. Several leading firms reported record profits last year. The government's privatisation programme should add to the buzz. But the outlook would be even better, of course, if the government finally got its finances in order.

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Economist.com FINANCE & ECONOMICS

Property in China

Sky-high Shanghai

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Reasons to be sanguine about a booming market

IN CHINA'S hot economy, few sectors seem hotter than property in Shanghai, the country's commercial centre. Stories abound about the frenzy. Residents in one swanky new compound claim that chemicals added to help cement set quicker and let developers build faster are making them sick. A Taiwanese man is reported to have made down payments on ten apartments on the Bund waterfront valued at 2m yuan ($240,000) each, only to be told a few days later that seven sellers wanted more money. Lawsuits against sellers for breach of contract are surging. Speculative demand from foreigners, reckon some, accounts for half the deals in the city. Partly, these investors are betting on a revaluation of the yuan.

Average prices in the city's residential market nearly doubled between 2000 and 2004. Last year, they jumped by 28% in the city centre. Relative to urban incomes, residential property in Shanghai is now as expensive as it was during China's 1994-95 economic bubble (see chart) and is much less affordable than in other big Chinese cities, reckons UBS, a bank. CB Richard Ellis, a property-services firm, ranks two Shanghai districts, Pudong and Puxi, among the 50 most expensive office markets in the world.

Wondering where all this will end, a few forecasters are doom-laden. Dong Tao, an economist at Credit Suisse First Boston, an investment bank, says that Shanghai property is the biggest risk to the Chinese economy in 2005. Speculative buying from both China and abroad—accounting for 75% of transactions in the city—is too big, he says. “When price expectations turn, this money will disappear overnight,” he says, citing interest-rate rises and corporate scandals as possible triggers.

Recently, the central and local governments have taken measures to cool the market. On March 6th, Shanghai became the first Chinese city to levy a capital-gains tax on the sale of property held for less than a year. Ten days later the central bank's decision removed national subsidies on mortgage loans and raised borrowers' upfront payments.

Some observers have taken this as a warning. However, there are reasons not to panic. First, the authorities seem to be trying to take the edge off prices rather than to bring them down—in keeping with government action in many “overheated” industries. Shanghai's capital-gains tax, at 5.5%, is not draconian. And the central bank's move, say analysts, will raise mortgage rates by only one-fifth of a percentage point.

Second, by the end of 2004 the average growth rate of both finished-property and basic-land prices in Shanghai had already fallen below the national average, after two years of giddy growth, says Jonathan Anderson of UBS. And although property prices have been rising faster than income in recent years, and homes in other cities have become more affordable, perhaps this is only to be expected. After all, argues Mr Anderson, Shanghai is “quickly becoming the financial and business centre of China”: therefore, a comparison with prices elsewhere on the mainland might not indicate much. Vincent Lo, chairman of Shui On, a Hong Kong developer active on the mainland, noted this week that Shanghai's economy has grown at an annual rate of 13% in the past four years, while its population, now 17.5m, is rising by 500,000 a year.

Mr Tao is right that “hot” money, particularly from Taiwan and Hong Kong, has boosted prices, especially for top-notch residential property. Four out of five luxury flats are being purchased by non-residents, say some analysts. However, even a sudden reversal of the market, says Mr Anderson, would be a local problem, not a threat to China's economic stability. In such a vast country, not even Shanghai is big enough to be that.

More troubling is the influence of official corruption and government meddling in limiting supply and so raising prices. A restriction of credit to developers, intended to cool the local economy, has cut the growth rate of construction, while red tape makes it more expensive and harder to relocate people. Both these factors are reducing supply. But Shanghai is more likely to grow into its rising property prices than it is to bring down the rest of China.

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Economist.com FINANCE & ECONOMICS

China Construction Bank

Personal banking

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The Californian connection to a Chinese bank scandal

WHEN China Construction Bank (CCB) announced the resignation of its chairman, Zhang Enzhao, on March 16th, the mainland's third-biggest lender claimed he had quit for “personal reasons”. Just how personal may now be emerging. A lawsuit filed in the United States alleges that Mr Zhang collected a $1m bribe from an American firm for helping it to secure a big information-technology contract from his bank.

The allegation is part of a complaint over contract violations, seen by *The Economist*, that was filed in California last December under America's Foreign Corrupt Practices Act, but revealed only on March 20th in *Caijing*, a respected Chinese business magazine. It claims that Alltel Information Services (AIS, then part of Alltel, a telecoms company) offered the bribe during an all-expenses-paid golf trip for Mr Zhang and two friends to Pebble Beach, a smart Californian resort, in May 2002. It alleges that in addition to the bribe, Jim Wilson, an executive at AIS (re-named Fidelity Information Services when it was bought in 2003 by Fidelity National Financial, a listed American company), used his corporate credit card to pay more than $10,000 for the golf game.

The suit claims that Mr Zhang also asked AIS to pay for his son's education in London and to meet his wife's travel expenses to visit the son. It also says that Mr Zhang's friends received favours. It claims the bribe went through the accounts of Prosten Technology, a Hong Kong-listed firm, a director of which, Bobby Yip, accompanied Mr Zhang. Prosten denies facilitating a bribe. A second friend allegedly received monthly payments of $3,500 until the lawsuit hit.

The allegations against Mr Zhang, at CCB for more than 40 years, are embarrassing. CCB has been selected as the first of China's four big state lenders to offer shares on the stockmarket in 2005. On March 17th Guo Shuqing, China's leading foreign-exchange official, replaced Mr Zhang as the bank's party chief (a job that usually goes with the chairmanship).

Mr Zhang's accuser was Grace & Digital Information Technology, a Beijing consulting firm. Grace says it was cheated out of $58.7m in commissions on two software contracts, worth $176m combined, that AIS won from CCB in 2001 with Grace's help. When the American firm played host to Mr Zhang in California, they drew up new contracts and, the complaint alleges, “colluded” to exclude Grace.

In his response, also seen by *The Economist*, Mr Wilson calls the bribery charges “completely false”. He claims that AIS won only $3.3m in contracts with Grace's help. When CCB's former boss, Wang Xuebing, was investigated for graft (he was replaced by Mr Zhang in January 2002 and is now in jail), the bank froze its contracts with AIS. Grace's bosses, according to Mr Wilson, fled China and did nothing to help AIS pursue other business with CCB. A letter shows that AIS gave notice to terminate its contract with Grace in March 2002—a year and a half, Mr Wilson says, before AIS struck new contracts with CCB. Mr Wilson claims that language barriers meant “business was not discussed during the golf outing”.

China is awash with corporate scandals, but few are dealt with justly or openly. The American connection may make the case of the China Construction Bank more open than most.

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Economist.com FINANCE & ECONOMICS

Italian banks

Double assault

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Twin challenges to Italy to open its banking industry

ANTONIO FAZIO faces a double challenge to his iron grip on Italy's banking system. The governor of the Bank of Italy has long shielded his country's banks from foreign predators. Now Spain's Banco Bilbao Vizcaya Argentaria (BBVA) is considering a bid for Banca Nazionale del Lavoro (BNL), Italy's sixth-biggest bank by assets, while the Netherlands' ABN Amro is mulling a takeover of Banca Antoniana Popolare Veneta, known as Antonveneta, the ninth-biggest. Last week both foreign suitors told the governor of their intentions, as Italian law requires. One week after this, the banks can make formal bids. Mr Fazio then has 60 days to block them.

As long-standing shareholders in their targets, BBVA and ABN Amro are well aware of Mr Fazio's opposition to foreign control of Italian banks. The Spanish bank already owns 14.7% of BNL; the Dutch bank has 12.7% of Antonveneta.

But Mr Fazio is now under pressure, from both the European Commission and domestic opponents. In the past few years, foreign banks with an interest in Italy have turned to Brussels for help. A few weeks ago, Charlie McCreevy, the European internal-market commissioner, wrote to Mr Fazio asking him to explain his policy. Mr McCreevy found the reply unconvincing.

Mr Fazio's domestic critics—such as Confindustria, the employers' federation, and the banks themselves—want the banks to become more competitive. Bank bosses say privately they may have to take foreign partners. Mr Fazio's interference has left Italy's banking market one of Europe's most fragmented. In his 12 years as head of the central bank he has not only thwarted foreigners' designs on Italian banks, but also blocked domestic mergers when he thought they would make a bank too powerful. In 1999 he defused a planned “big bang” involving four leading banks: SanPaolo IMI wanted to join forces with Banca di Roma (now Capitalia), and UniCredito was keen to merge with Comit.

Politicians, however, support Mr Fazio's protection of domestic banks. Silvio Berlusconi, the prime minister, worries about the “colonisation” of Italian banking. Yet they are not wholly happy with Mr Fazio. They recently discussed shifting supervision to the antitrust authorities and limiting the governor's tenure, which is for life (though they did neither.)

A domestic white knight could help Mr Fazio avoid open conflict with Mr McCreevy. Hence his encouragement for the interest of Banca Popolare di Lodi (BPL), the country's tenth-largest bank, in Antonveneta. In the past few months Gianpiero Fiorani, boss of BPL and a close confidant of Mr Fazio, has more than doubled his stake in Antonveneta to 5% and rallied some allies. BPL is a dab hand at domestic takeovers, having bought or formed alliances with 22 small banks since 1996.

Mr Fazio is also doing nothing to discourage an unorthodox pact of Italian shareholders from challenging the grouping led by BBVA. The Spanish bank heads an alliance that includes Generali, a big insurer, and holds 28% of BNL. Francesco Caltagirone, a property developer, and four other industrialists now control almost one-quarter.

Despite Mr Fazio, some investment-bank analysts think that the foreigners might get their way. Alessandro Roccati, of Fox-Pitt, Kelton, an investment bank, gives BBVA a “moderately high” probability of success. The Spanish bank plans to make its offer in shares, and has room to increase its bid should a rival emerge. Davide Serra, of Morgan Stanley, is also positive about the foreign banks' chances. Consumers would welcome the arrival of the Dutch and the Spanish. Prices for retail-banking services are 20-30% higher in Italy than in the Netherlands or Spain. BBVA and ABN Amro would add value and reduce prices in mortgage lending, credit cards and lending to small business, says Mr Serra.

Whatever the outcome, the foreigners' interest will step up pressure on Italian banks to accelerate domestic consolidation. Maybe Mr Fazio is having some regrets over his resistance to the big bang six years ago. If it had happened, his home market would be better prepared for attacks from abroad.

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Economist.com FINANCE & ECONOMICS

America's Social Security reform

Labour lashes out

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Unions are demanding that investment firms oppose private accounts

LITTLE love is lost between organised labour and Wall Street. The two are squaring off again, this time over George Bush's push to augment Social Security, America's public pension system, with private accounts. Labour won a round last week: the Financial Services Forum, which represents chief executives from Citigroup, Goldman Sachs and other big firms, said it had not renewed its membership of a group backing the change. Two other financial-services firms, Edward Jones and Waddell & Reed, have already pulled out of another lobby group, the Alliance for Worker Retirement Security (AWRS), after pressure from unions.

The AFL-CIO, America's trade-union federation, is not pausing for breath. Its president, John Sweeney, has sent dozens of letters to financial firms in recent months, stating that “the push to privatise Social Security creates a conflict of interest between America's financial services industry and the investing public it serves”. Mr Sweeney claims that financial firms stand to gain “probably hundreds of billions of dollars” in private-account fees. The AFL-CIO plans protests across the country on March 31st, including demonstrations at Charles Schwab, a retail broker.

Schwab says that it joined AWRS simply to take part in the debate on Social Security, and that it also belongs to groups that oppose private accounts. Indeed, most financial firms are officially agnostic about reform—sensibly, given its lack of popularity. There have been public protests against it; and the latest poll, by the *Washington Post* and ABC News, found that barely one-third of respondents approved of Mr Bush's plans. But Steven Weingarten, an investment officer at the AFL-CIO, complains that some companies claim neutrality while quietly supporting private-accounts lobbyists with money or through trade groups. The unions are now gunning for the Securities Industry Association (SIA), whose members include banks and mutual funds and which is itself a member of the AWRS.

Why should fund managers listen to the AFL-CIO? In a word, money. As joint trustees with employees, the unionshelp oversee $400 billion-worth of pension assets. Union officials also sit on the boards of public pension funds. So the unions could in theory boycott investment managers or brokers they do not like (although switching fund managers is costly). In January the chairman of J.P. Morgan Chase received a letter from three union-linked trustees of the New York City Employees' Retirement System. The letter expressed concern that the bank's connections to groups such as the Securities Industry Association “may be at odds with the duty to represent the best interests of our plans and its beneficiaries”.

Political supporters of Mr Bush's proposals are fighting back. On March 18th two Republican lawmakers, from Texas and Ohio, sent a letter to the Department of Labour inquiring about whether the unions' pressure tactics have broken federal labour and pension laws. “When union leaders and pension plan trustees base investment decisions on politics, we question how they can do so lawfully,” the congressmen wrote.

The irony is that few financial-services firms may benefit much in the near future even if Mr Bush's

proposals pass—Mr Sweeney's “hundreds of billions” notwithstanding. The president wants the government to invest money from private accounts in index funds, on which management fees are low. This promises a small benefit for fund managers. Annuity providers should gain a bit. There would be no windfall for big Wall Street banks. In the longer term, though, if private accounts were to push up the stockmarket, the whole financial-services industry could benefit. And if future lawmakers loosened the rules, managers of active funds, which carry higher fees than index funds, could gain. These possibilities, however, are far away. The unions hope the debate will never reach that stage.

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Economist.com FINANCE & ECONOMICS

Ageing and public finances

Debt threat

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From The Economist print edition

Extending working lives is a better answer than making pensioners poorer

DEATH and taxes, said Benjamin Franklin in the 18th century, are the only two certainties in life. In the first half of the 21st century, the greying of many countries' populations looks equally unavoidable. Much less certain, as two new studies make clear, is governments' ability to meet the cost of supporting their ageing citizens.

The first study, published on March 18th by Standard & Poor's, a credit-rating agency, estimates the damage that increases in age-related spending will wreak on government budgets if policies remain the same. In America, Germany and France, public debt will balloon from about 65% of GDP now to over 200% by 2050; in Britain it will rise from about 40% to over 150%. This would cause credit ratings to tumble in the 2020s: solid sovereign debt would turn to junk by 2035.

Unlike the ageing of populations, the rise in public-sector debt is not a certainty, because governments can change their policies. S&P's projections are intended not as a prediction but as an indicator of the scale of the reforms that are needed to avert a drastic deterioration in governments' finances.

One priority is to cut today's budget deficits. Another is to hold down future pension costs. This is especially important in France and Germany, where age-related spending will be driven up mainly by public-pension commitments. It will also help countries such as America and Britain, where more of the pressure on government budgets will come from escalating health-care spending.

Public pensions have already been reformed in many countries, so how much scope is there to trim their costs further? The second study, forthcoming from the OECD, casts light on this question by estimating the adequacy of future pensions, including those from compulsory private schemes. This is both a social and a fiscal issue. Stingy pension benefits may be affordable, but they might not be sustainable politically, especially with so many grey-haired voters.

In the report, Monika Queisser and Edward Whitehouse, pension specialists at the OECD, calculate how much today's young workers can expect from their pensions when they retire in around 40 years' time. Among other things, they estimate the “net replacement rate”—the proportion of post-tax earnings replaced by post-tax pensions. The use of the net rate captures the generally more favourable tax treatment of pensioners than of workers.

The report suggests that many countries will find it difficult to contain the costs of population ageing by making mandatory pensions less generous. Britain's Pensions Commission has used a net replacement rate of

80% for workers on average incomes as a rough guide to whether they will have enough to live on in retirement. Many developed economies have already pared future pensions to below 70% (see chart), and it may be hard to push them much further down.

The implication is that governments have to rethink how to contain pension costs. One strategy is to relieve the pressure on mandatory pensions by encouraging private, voluntary saving for old age. Such arrangements are widespread in America and Britain. For many employees covered by them, net replacement rates will be adequate. But there are worries that many will not be well provided for: half of workers are not covered and some of those who are covered are not saving enough.

The most vital reform is to extend working lives. According to Ms Queisser, the report shows that there is only limited scope to whittle away future pensions: the way forward is to raise the age at which they start to be paid. Few people like the idea of retiring later, but it may be essential to prevent the ageing of populations from wrecking public finances.

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Economics focus

Punch-up over handouts

Mar 23rd 2005
From The Economist print edition

Rich countries are under pressure to end their farm subsidies. Might some poor countries be sorry to see them go?

BURKINA FASO, in west Africa, depends on cotton for about 40% of its merchandise exports. Alas, prices are not always what they might be. According to the International Cotton Advisory Committee, a body that advises governments, world prices would have been about 26% higher in the 2001-02 season were it not for the $4 billion in subsidies America lavished on its cotton growers. Farming upland cotton in the United States was once about separating lint from seed. Now, it is a convenient method for parting the American taxpayer from his money.

The pickings may soon become less rich (see article). This month the World Trade Organisation (WTO) upheld its ruling that such subsidies distorted trade and breached limits agreed in 1994. Mr Bush's budget for the coming fiscal year proposes deep cuts in farm subsidies. Furthermore, a promise to eliminate rich countries' export subsidies (eventually) and to make a “substantial” cut in other kinds of handouts was vital to reviving the Doha round of global trade talks last summer. It was also agreed that the grievances of Burkina Faso and its neighbours should be addressed “ambitiously, expeditiously and specifically”.

But as the round inches forward, some free-traders are troubled. Jagdish Bhagwati, an economist at Columbia University and author of a book defending globalisation, is one of them. Agricultural subsidies are certainly undesirable, he wrote recently in the *Far Eastern Economic Review*. But the claim that removing them will help the poorest countries is “dangerous nonsense” and a “pernicious” fallacy.

Arvind Panagariya, a colleague of Mr Bhagwati's at Columbia University, agrees*. His argument rests on a surprising observation: most poor countries are net importers of agricultural goods. A study in 1999 found that 33 of the 49 poorest countries import more farm goods than they export; 45 of them are net importers of food. Subsidies depress the price of agricultural products on world markets. That hurts rival exporters, as Burkina Faso can testify. But importers gain.

By the same logic, the repeal of subsidies should benefit exporters but hurt importers. In a paper published in 2003†, Stephen Tokarick, of the International Monetary Fund, estimated by how much. He reckoned that, if OECD countries were to scrap their subsidies (but keep their tariffs), Brazil and Argentina, both strong agricultural exporters, would gain. But the rest of Latin America would lose $559m a year (in 1997 dollars). India would benefit a bit, but the rest of South Asia would be $164m worse off. Sub-Saharan Africa would lose $420m, while North Africa and the Middle East would face a cost of $2.9 billion.

The impact on different households within a poor country is another question. In a recent book‡, William Cline, of the Centre for Global Development, an American think-tank, points out that poor households tend to be rural, and rural households tend to sell more food than they eat. For them,

rising farm prices are to be welcomed. It is the urban poor that should worry—and maybe the rulers of poor and fragile nations, who have traditionally striven to keep food prices low. Hard-pressed peasants are less of a threat than disgruntled city folk within a stone's throw of the presidential palace. An end to OECD farm subsidies, however, would transfer money from town to countryside.

If such a transfer is to be welcomed, Mr Panagariya asks, why wait for OECD countries to cut their subsidies? Poor countries could take matters into their own hands by slapping a countervailing tariff on the subsidised produce. That would raise the domestic price of food, benefiting rural households. It would also be a neat way of raising revenue at rich countries' expense.

Such a tariff would only raise farm prices at home, of course. Mr Cline thinks most poor countries would benefit from a rise in the relative price of agricultural goods in the world market. He argues that many poor countries possess an underlying comparative advantage in farm goods. Yes, they tend to be net importers of food. But that is deceptive. Thanks to the large aid flows such countries receive, they tend to be net importers of everything.

The privilege is mine

Mr Panagariya again demurs. He points out that many poor countries enjoy privileged access to the sheltered markets of the European Union. Thus they already enjoy higher prices for their exports than they could expect to find on the open market.

The sugar producers of Mauritius, for example, sell their produce behind the EU's steep import barriers at three times the market rate. By some estimates, the island owes almost 30% of its export earnings to the preferences the EU bestows upon it. But these privileges are not without cost. The World Bank reckons that every $1 that a country such as Mauritius gains from its trade privileges costs the EU and the United States $6. As an aid programme, it is not terribly efficient.

The paradox of the Doha round is that the members fighting hardest to retain subsidies, such as the EU, are those with most to gain from abolition. Poor countries, on the other hand, stand to gain more from cuts in tariffs. According to Mr Tokarick, the abolition of rich-world tariffs would yield $12.5 billion for poor countries, with no regional losers. If they also liberalised their own agricultural trade, they would reap another $21.4 billion.

America's cotton subsidies deserve to be addressed “ambitiously, expeditiously and specifically”, as the WTO agreed last summer. But no less ambition and expedition must also be mustered in the fight against tariffs.

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* “Agricultural liberalisation and the developing countries: debunking the fallacies”. Available at http://www.columbia.edu/~ap2231/

† “Measuring the impact of distortions in agricultural trade in partial and general equilibrium”. IMF working paper 03/110

‡ “Trade Policy and Global Poverty”. Centre for Global Development and Institute for International Economics, 2004

Economist.com SCIENCE & TECHNOLOGY

Desktop manufacturing

Fabulous fabrications

Mar 23rd 2005
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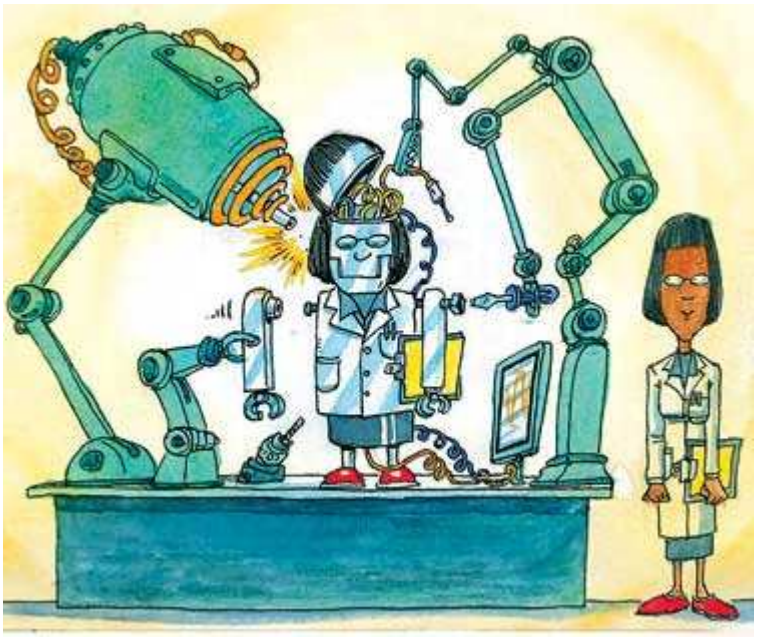

A way to help inventors in poor countries realise their ideas

STAR TREK had the replicator—a device that could assemble any object, atom by atom. The Nutri-Matic vending machine concocted drinks molecule by molecule in “The Hitchhiker's Guide to the Galaxy”, personalising them by analysing an individual's taste buds, metabolism and brainwaves (though then, it has to be admitted, turning out a beverage that tasted almost, but not quite entirely, unlike tea). Now, for those still stuck on Earth, Neil Gershenfeld, the director of the Massachusetts Institute of Technology's Centre for Bits and Atoms, has built version 1.0 of the personal fabricator, and it is already being deployed around the world.

The “fab lab”, as Dr Gershenfeld has nicknamed his invention, is a collection of commercially available machines that, while not yet able to put things together from their component atoms, can, according to its inventor, be used to make just about anything with features bigger than those of a computer chip. Among other tools it includes a laser cutter that makes two-dimensional and three-dimensional structures, a device that uses a computer-controlled knife to carve antennas and flexible electrical connections, a miniature milling machine that manoeuvres a cutting tool in three dimensions to make circuit boards and other precision parts, a set of software for programming cheap computer chips known as microcontrollers, and a jigsaw (a narrow-bladed cutting device, not a picture puzzle). Together, these can machine objects with a precision of a millionth of a metre. The fab lab's purpose is to endow inventors—particularly those in poor countries who lack a formal education and the resources to implement their ideas—with a set of tools that can translate back-of-the-envelope designs into working prototypes.

And it works. In Pabal, an Indian village with a population of 5,000, a dairy farmer's income is tied to the fat content of his cow's milk. Students at the nearby Vigyan Ashram science school are using a fab lab to build a sensor that will give Pabal's farmers a precise measure of that fat content. In Takoradi, Ghana, people have used the labs to produce a cassava grinder, jewellery, car parts, agricultural tools and communication equipment such as radio antennas. Solar-powered items to harness the relentless local sunlight are in the works. In Norway, Sami animal herders—who are among Europe's last nomads—are using fab labs to make radio collars and wireless networks to track their charges. And in Boston (admittedly not part of the developing world, but conveniently near MIT), the residents of a mixed-income housing complex are using one of Dr Gershenfeld's labs to create a wireless communication network.

Thunderbirds are go

The idea for the fab lab sprang from a popular MIT course titled “How To Make (Almost) Anything”, which provides a hands-on introduction to multimillion-dollar machines such as supersonic waterjets, powerful lasers and microscopic atom beams. In addition to engineering regulars, the class attracts scores of artists and architects who use the technology as a means of personal expression. These outsiders have designed a web browser for parrots, an alarm clock that has to be wrestled off just to make sure you really are awake and other such useful items.

But it was not so much the utility of the artists' inventions that Dr Gershenfeld noticed, as the fact that they were built by people with original ideas but a negligible background in technology. He realised that if he could put together an affordable, portable, tabletop version of the course, that concept could be taken to the masses. He identified the essential hardware and software, wrote a special program to translate designs into machine instructions, and then packaged the whole lot together.

Dr Gershenfeld believes the world is poised for a personal-fabrication revolution. Fab lab will, he hopes, be part of it. Just as computing power moved from million-dollar mainframes to hundred-dollar PCs, industrial-scale machinery is, in his opinion, beginning a transition to the desktop. While personal fabricators will not replace mass production, he believes that within the next few years they will allow individuals and small businesses to customise products to their needs. At $20,000 each—not a trivial amount of money in a poor country, but not outrageous either—the fab lab may indeed release an outpouring of frustrated talent.

There does, nevertheless, remain the question of who will pay. The World Bank and the other usual sources of finance for international development say they appreciate fab lab's potential, but consider the project far too speculative. They prefer investing in proven technologies rather than in the process of technology development. Despite this, the labs may be able to spread without support from traditional aid agencies because they may be able to become economically self-sustaining quite quickly. When word of the lab in Takoradi spread, for example, people came from far and wide to use it. Relatively small amounts of venture capital—possibly provided by so-called microfinancing, which pools savings in poor countries to make tiny investments or loans to local enterprises—could help get fab labs off the ground. If that happens, says Dr Gershenfeld, a fab lab can probably be used to fabricate new versions of itself to keep up with the demand.

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Planet hunting

First light

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Light from two extrasolar planets is seen for the first time

PLANETS are not, as a rule, very bright. That is only fair, because they do not produce any light by themselves, they just reflect light from the stars they orbit. They also affect the light from their parent stars in other ways, first by causing the parent star to wobble (which affects the light's frequency) and second by dimming that light when they pass between star and observer. Up until now, astronomers have relied on these indirect effects to infer the existence of so-called extrasolar planets, which orbit stars other than the sun. They have been very successful in this, for 152 such planets have been found to date. But it would be nice to see some directly, rather than having to infer their existence, and two teams of astronomers have now done just that.

Both teams relied on NASA's *Spitzer* space telescope to observe their planets. *Spitzer* observes in the infra-red. This is light with a wavelength longer than that at the red end of the visible spectrum. Because infra-red light has this long wavelength, it is less energetic. And that means that cooler things (like planets) are comparatively brighter, and hot things (like stars) comparatively dimmer, in this bit of the spectrum. With a little electronic jiggery-pokery it is thus possible to subtract the light from the star alone from that of star-plus-planet, leaving behind only the image of the planet.

The first of the two planets, HD 209458b, is about 1.35 times the size of Jupiter, the biggest planet in the local solar system, but is 20 times closer to its star than Earth is to the sun—it orbits every three and a half days or so. TrES-1, the other planet, is also a “hot Jupiter”, with a three-day orbit.

For now, directly imaging Earth-sized planets will be difficult. That is why NASA is planning to launch a purpose-built mission, called the Terrestrial Planet Finder (TPF), in 2016. The TPF will rely on a suite of satellites flying in formation, in order to make high-resolution images. That is assuming it does not fall victim to NASA's re-orientation in favour of manned spaceflight. To find other planets that might support intelligent life, one must first have intelligent decision-making on Earth.

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Science and society

Anatomy of a techno-myth

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The debate over the safety of mobile phones has little to do with science

DO MOBILE phones cause explosions at petrol stations? That question has just been exhaustively answered by Adam Burgess, a researcher at the University of Kent, in England. Oddly, however, Dr Burgess is not a physicist, but a sociologist. For the concern rests not on scientific evidence of any danger, but is instead the result of sociological factors: it is an urban myth, supported and propagated by official sources, but no less a myth for that. Dr Burgess presented his findings this week at the annual conference of the British Sociological Association.

Mobile phones started to become widespread in the late 1980s, when the oil industry was in the middle of a concerted safety drive, Dr Burgess notes. This was, in large part, a response to the Piper Alpha disaster in 1988, when 167 people died in an explosion on an oil platform off the Scottish coast. The safety drive did not apply merely to offshore operations: employees at some British oil-company offices are now required to use handrails while walking up and down stairs, for example. So nobody questioned the precautionary ban on the use of mobile phones at petrol stations. The worry was that an electrical spark might ignite explosive fumes.

By the late 1990s, however, phonemakers—having conducted their own research—realised that there was no danger of phones causing explosions since they could not generate the required sparks. But it was too late. The myth had taken hold.

One problem, says Dr Burgess, is that the number of petrol-station fires increased in the late 1990s, just as mobile phones were proliferating. Richard Coates, BP's fire-safety adviser, investigated many of the 243 such fires that occurred around the world between 1993 and 2004. He concluded that most were indeed caused by sparks igniting petrol vapour, but the sparks themselves were the result of static electricity, not electrical equipment. Most drivers will have experienced a mild electric shock when climbing out of their vehicles. It is caused by friction between driver and seat, with the result that both end up electrically charged. When the driver touches the metal frame of the vehicle, the result is sometimes a spark. This seems to have become more common as plastic car interiors, synthetic garments and rubber-soled shoes have proliferated.

A further complication was the rise of the internet, where hoax memos, many claiming to originate from oil companies, warned of the danger of using mobile phones in petrol stations. One e-mail contained fictitious examples of such explosions said to have happened in Indonesia and Australia. Another, supposedly sent out by Shell, found its way on to an internal website at Exxon, says Dr Burgess, where it was treated as authoritative by employees. Such memos generally explain static fires quite accurately, but mistakenly attribute them to mobile phones. Official denials, says Dr Burgess, simply inflame the suspicions of conspiracy theorists.

Despite the lack of evidence that mobile phones can cause explosions, bans remain in place around the world, though the rules vary widely. Warning signs abound in Britain, America, Canada and Australia. The city of São Paulo, in Brazil, introduced a ban last year. And, earlier this month,

a member of Connecticut's senate proposed making the use of mobile phones in petrol stations in that state punishable by a $250 fine.

For Dr Burgess, such concerns are part of a broader pattern of unease about mobile phones. There is a curious discrepancy, he notes, between the way that such phones have become indispensable, and the fact that they are also vaguely considered to be dangerous. This is particularly noticeable in Britain. The country that led the way in banning mobile phones at petrol stations is also the country that has taken the strongest line on the safety of mobile-phone use by children. In January, Sir William Stewart, the government's expert on the subject, warned that while there is no evidence that mobile phones are unsafe, as a precautionary measure children should use them only when absolutely necessary. The safety of mobile phones would appear to be not so much the province of the hard science of physics, as of the soft science of sociology.

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Phototheology

And the word was made flash

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Digitised scripture lessons

THE world's oldest Bible is in bad shape. The “Codex Sinaiticus” is scattered across four countries and its vellum pages, having lasted more than 1,600 years, are in a fragile state. That is why, earlier this month, curators at the British Library in London announced an ambitious plan to digitise it. They propose to scan the entire book using a technique called hyperspectral imaging. Not only will this create a high-resolution copy, it will also allow scholars to examine the numerous corrections and overwritings in the text of the codex. The effort will take four years, and cost around £680,000 ($1.3m).

“Sinaiticus” is so called because, for most of its history, it resided at St Catherine's monastery on Mt Sinai, one of Christendom's oldest continuously functioning monastic communities. The book, dated to the mid fourth century by scholars using contextual evidence such as the divisions between chapters and the sort of uppercase script that is employed, was kept at the monastery until 1859. Since then, bits of it have ended up in Leipzig, St Petersburg and London, though the monastery still has some of it and continues to claim ownership of the lot.

As a result of the scattering, and also because of the delicate condition of the original manuscripts, most scholars have had to rely on imperfect transcriptions and facsimiles. According to Scot McKendrick, curator for classical, Byzantine and biblical manuscripts at the British Library, only four researchers in the past 20 years have been allowed access to those parts of the original that are in London.

That, however, is set to change. The digitisation project will make both high-resolution images and up-to-date transcriptions and translations of “Sinaiticus” freely accessible to all on the web.

The hyperspectral imaging technique that will be used to scan the Bible was originally designed for medical purposes, by Costas Balas at the Technical University of Crete. It works by looking at each image in very narrow bands of wavelength—specific shades of red, green and so on. However, the imaging spans more than just the visible part of the spectrum of light, going from the ultra-violet (light that has shorter wavelength than violet) to the infra-red (light with wavelength longer than red). Because both the ink used to write on the vellum and the vellum itself are transparent at various wavelengths, this technique will allow scholars to see all the layers of the manuscript in at least some wavelengths, and thus perceive the various rewrites it has gone through.

Dr McKendrick says that it is one of the first projects of its kind, and one the library hopes to emulate with other manuscripts. It is only now, he says, that the technology has advanced to the point where digital copies can be as good, if not better, than the original. And the democratisation of access to the text will have a big impact on biblical scholars. Dr McKendrick points out that even the privileged few who had access to the original could spend only a short time examining it. Once the scanning is completed, the many will be able to examine it for as long as they like.

To those who care about such things, this matters a lot. There is still disagreement between

various Christian sects about just which books belong in the Bible—which, to use the jargon, are canonical. In particular, both the western Catholic and the eastern Orthodox churches base their Old Testaments on the Septuagint, a Greek translation of the Hebrew Old Testament. That means they include a group of books known as the Apocrypha in their Bibles, which Protestants do not. An accessible version of “Sinaiticus” (which contains a partial copy of the Septuagint) should help shed light, as it were, on which texts were considered canonical in the fourth century, and which were not.

In particular, it will illuminate the accidents of editing. For, even though many think of the Bible as the word of God, it did have editors. “Sinaiticus”, Dr McKendrick says, is considered to have been written by three different hands. One of these was an editor, who corrected the text in numerous places. The best-known correction, according to Dr McKendrick, is at the end of St John's gospel, which had been missing its last line. The editor erased another scribe's writing of the title of the following book and wrote in the missing line. It may seem like nit-picking, but in a work as heavily invested with meaning as the Bible, every word does indeed count.

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Correction: collaborative filtering

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An article in Technology Quarterly on March 12th, "United we find", stated that Amazon.com was one of several groups to have pioneered item-item collaborative filtering in 2001. In fact, Amazon got there first. It applied for a patent on the technology in 1998. Our apologies.

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Economist.com BOOKS & ARTS

Christian Jerusalem

Ridiculous and sublime

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Getty Images

Jerusalem, the site of Christ's death and resurrection, has long mixed religious spirituality with an all too human capacity for earthly nonsense

IN EVERY place where Palestinian Christians live, church choirs are getting ready to celebrate what they regard as the defining event in local history. Some will mark Easter along with the western Christian world on Sunday; the majority, followers of the eastern calendar, have another five weeks to wait before their rich Arabic voices take up the Hebrew poetry of the Paschal hymn: “Shine, shine, Oh new Jerusalem, for the glory of the Lord has dawned upon you!”

Christ himself counselled people not to be too concerned with the specifics of holy places; it was more important to offer prayers “in spirit and in truth” than to pray on the right mountainside or in the right city. But Palestinian worshippers would hardly be human if they did not give a rather literal interpretation to the words they were singing. As a tiny minority within a minority whose lives have been turned upside down since the *intifada* began, they yearn to travel more easily to and from the earthly Jerusalem of family, friends and cherished places of worship.

Holy Fire
By Victoria Clark

Macmillan; 432 pages; £20

Buy it at
Amazon.co.uk

But not all of Jerusalem's Christians sympathise with them. While the Christian communities of the Old City (Armenians and Ethiopians, as well as Palestinians) dwindle in numbers and morale, there is a powerful new force on the religious scene: a dynamic body of evangelical Christians, many of them American, who side with the far right of Israeli politics. They believe that the Jews are the only people with a right to the land of Israel as defined by scripture, and that all others should

leave. Many of the older Christian communities find it hard to regard these newcomers as their co-religionists.

This tension is one of the many themes investigated by Victoria Clark, who spent a year and a half as a part-time resident of the Old City, staying in a damp ex-monastery as lodger and friend of two Palestinian Christian sisters with an endearing attachment to gossip and cigarettes. Against a background of violence, fear and economic depression, Ms Clark has written a rich and insightful essay on Christian Jerusalem, harking back as far as 325AD, when the Emperor Constantine and his mother, Helena, are said to have announced the discovery of Christ's tomb.

Ever since, this tiny shrine has drawn hundreds of thousands of people, some as conquerors using the Holy Sepulchre as an excuse for military adventures, others believing that they could be redeemed both by the journey and the destination. The conquerors insisted that only by possessing the shrine, and killing everybody who stood in their way, could Christian powers be guaranteed access to the holiest place of their faith. The reality experienced by ordinary believers was different. For at least two centuries after Muslims took control of Jerusalem in 638AD, Christians enjoyed uninterrupted visits to the Sepulchre and the sacred sites around it. Another period of peaceful access was the 400 years of Ottoman rule; the Sultans were cheerfully venal about who administered the holy premises, and gave the lion's share to the Greeks who were the best payers.

In the 19th century, Anglo-Saxon Protestants were horrified by the annual Easter ritual of the Holy Fire. This is a ceremony in which a flame—kindled in some mysterious way in the heart of the tomb—is used to light the candles of thousands of excited believers from every corner of eastern Christendom.

As Ms Clark points out, there is indeed something close to farce about many aspects of the Sepulchre, including the regime under which six Christian communities co-exist in an atmosphere of intense mutual suspicion, which can degenerate into fisticuffs.

In any description of elaborate ritual conducted by fallible human beings, the ridiculous is never far away and no description of Christian Jerusalem would be complete without a dose of slapstick. Ms Clark provides plenty: Cypriot monks with halitosis, Franciscans who “hitch up their skirts” as they sit down, and Armenian tour guides with wandering eyes.

But what about the sublime? Striking by its absence from her book is any word from pilgrims who are transformed by the visit. She focuses instead on Victorian travellers, full of contempt for the Greek and Russian peasants who thronged the Sepulchre. One traveller, Robert Curzon, watched in horror in 1834 as the ceremony of the Holy Fire led to a stampede in which many people were killed. Small wonder, as Ms Clark points out, that most Victorian visitors preferred to spend their time outdoors, mapping biblical sites.

But not every modern pilgrim treats the Sepulchre with such disdain. One very recent visitor, a well-educated American nun whom Ms Clark did not meet, said she was utterly overwhelmed by the place: “Pressing your forehead against the cool marble slab, you know beyond reason and sentiment that this tiny shrine is the precise spiritual centre of the universe, and that all beauty, all religious truth and every created being spins on an inner axis around this sun.”

What such descriptions evoke is the mystery at the heart of all holy places. They may be located in specific points on the map, but they are also thresholds which take the pilgrim into a reality beyond time and space. The holiness of such places—their role as gateway to an entirely different reality—is organically connected to the worldly battles they trigger, but is also entirely separate. While earthly movements, of which the ultra-Zionists are only the most recent, view the Holy Land as a place to possess and transform, pilgrims down the centuries have experienced it as a place

where they undergo transformation. The Palestinian Christians have a healthy instinctive sense of this paradox. They adore the Holy Sepulchre, while maintaining a lively disrespect for most of the Greek bishops who lord and squabble over it.

By Victoria Clark.
Macmillan; 432 pages; £20

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Economist.com BOOKS & ARTS

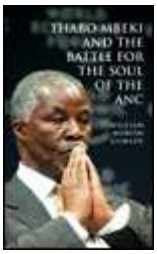
South Africa

Presidential enigma

Mar 23rd 2005 | JOHANNESBURG
From The Economist print edition

FEW writers get close to South Africa's Thabo Mbeki. Leader of Africa's most powerful country since 1999, Nelson Mandela's successor is widely seen as aloof and professorial. Though Mr Mbeki is probably the only head of state to write a weekly online political column, his views on important issues remain poorly understood. He is deathly silent on AIDS, though HIV has killed more than 1m of his countrymen and infected another 5m at least. He bristles when asked to respond to the collapse in Zimbabwe next door. Meanwhile, personal questions, he says sharply, are really nobody's business but his own.

Thabo Mbeki and the Battle for the Soul of the ANC
By William Mervin Gumede



Zebra Press; 384 pages; 199 rand. To be published in Britain by New Holland Publishers in July

Mr Mbeki is especially touchy when outsiders discuss the ruling African National Congress (ANC), which scooped 70% of the vote in the 2004 elections. Important political debate should be happening in its ranks. Archbishop Desmond Tutu has warned that many ANC officials demonstrate a kow-towing subservience that stifles discussion. Mr Mbeki snaps that the troublesome bishop, who is not a party member, should keep quiet. Others meet similar withering responses.

So it will be instructive to see how Mr Mbeki and his party react to William Gumede's forthright book. Older, white critics may be dismissed (however unfairly) as relics of the apartheid past. Mr Gumede—a bright, young and black academic—cannot be brushed aside so easily. His work is thorough, drawing on interviews with the president's allies and rivals, including many senior party members.

Mr Gumede has plenty of time for the impressive bits of Mr Mbeki's rule. The president is honest and a workaholic. He appeals both to foreign investors and to voters in the village. He deserves most credit for pushing reforms on reluctant colleagues that have produced a much-improved economy. A tough opponent of corruption, he is committed to spreading peace and wealth in Africa.

The chess-loving leader is also a powerful political operator. Chapters on his battle to get to the top of the ANC, and subsequent control of its policy agenda, tell of deft back-room manipulation and a skill at sidelining rivals. But ultimately this book is a warning, like Archbishop Tutu's, that the leader's "intolerance and vindictiveness" against opponents threatens healthy debate. "Where the ANC is concerned, he demands centralised control and an absence of dissent," says the author. There is a "climate of fear" and self-censorship in the party. That could spread: "Thus is the quality of the democracy undermined."

Some will feel that this conclusion is too strong. After all this is one of the most robust of African democracies. But Mr Gumede feels it is better to warn early and protect what has been achieved, than turn a blind eye to nagging signs. It is already clear that a failure to debate policies can cost lives. Fatal dithering on AIDS came about in part because ministers and party officials, people who

well knew the impact of the epidemic, did not dare confront their sceptical president about it. Similarly it took years for senior ANC members to give public expression to their worry that “black economic empowerment”, the effort to put more wealth in black hands, is enriching only a few.

Mr Gumede's advantage is that he writes plainly. Others seem to find it excruciatingly difficult to sum up the president. A long-awaited biography by Mark Gevisser is expected this year, but its publication has been repeatedly postponed as the author frets and reassesses his puzzling subject. Unpicking Mr Mbeki is painful. He can be prickly, especially about race issues. He is often defensive and there are lingering doubts about what exactly he plans to do when he leaves office in 2009. One strong rumour is that he might try to keep charge of the ANC. All the more reason to heed Mr Gumede's warning.

By William Mervin Gumede.
Zebra Press; 384 pages; 199 rand. To be published in Britain by New Holland Publishers in July

Reuters

They want a good talking to

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Economist.com BOOKS & ARTS

Eastern Europe

Found in translation

Mar 23rd 2005
From The Economist print edition

EXILE is one kind of literary rocket fuel, life under totalitarianism another. Put the two together and you get some big books: Milan Kundera's “The Unbearable Lightness of Being” and “The Engineer of Human Souls” by Josef Skvorecky, both from what was once Czechoslovakia, or Eva Hoffman's “Lost in Translation” from Poland. They were good guides to the move, in cold-war years, from the lost half of Europe to the pampered West.

Since the collapse of communism and Europe's reunification, there has been nothing to match those offerings. But two new books try to fill the gap. A heavyweight and rewarding offering is “Chernobyl Strawberries”. These were the contaminated fruits of the summer of 1986, the year that Vesna Bjelogrlic (that's not a spelling mistake—Slavic languages use consonants where lesser tongues have vowels) decided to leave her stagnant but peaceful Yugoslav homeland and move with her English fiancé to London. Her book echoes with the chimes of the continent's common history, divided by a century of wars and totalitarian rule. What could seem farther apart than the British empire on one hand, and the agglomeration of ex-colonies, Serbia, Croatia, Bosnia and others, that made up the former Yugoslavia on the other? Yet her father-in-law, a veteran of the North-West Frontier, instantly identifies with her forebears from mountainous Montenegro, a handkerchief-sized Balkan theocracy defined by its military prowess: “just like Pathans”, he concludes. Britain and Balkan ex-monarchies, she notes, both like uniforms, crowns and stirring tales of valour.

Ms Goldsworthy's treatment of her adopted homeland is masterly, using irony and self-deprecation to evoke affection, respect and clear-sighted criticism. How lucky, she thinks, to be British in the late 20th century, unplagued by the nagging historical dilemmas about collaboration, resistance and suffering that in less fortunate countries mean sleepless nights for the thoughtful. She is equally sensitive but fair-minded as she considers her native Serbia, perpetrator of atrocities, but bombed by the country she now calls home. It is easier, she notes wryly, to be like the Czechoslovaks or Hungarians, attacking the invading tanks of a foreign power, than to have to worry about what your own country's tanks are doing.

No less thought-provoking, but also uproariously funny, is Marina Lewycka's first novel, “A Short History of Tractors in Ukrainian”. The post-war east European emigration in Britain has scarcely featured in fiction—William Palmer's “The Good Republic” is almost the only example, ably linking the British Baltic diaspora with moral dilemmas at home both past and present. Ms Lewycka's book deals with Ukrainian émigrés, painfully respectable after 40 years in Britain, confronted with

Chernobyl Strawberries: A Memoir
By Vesna Goldsworthy

Atlantic Books; 290 pages; £14.99

Buy it at
Amazon.co.uk

A Short History of Tractors in Ukrainian
By Marina Lewycka

The Penguin Press; 304 pages; $24.95. Penguin/Viking; £12.99

Buy it at
Amazon.com
Amazon.co.uk

the alarming presence of real (and painfully unrespectable) Ukrainians from the newly independent but largely forgotten homeland. The sluttish, rapacious figure of Valentina, determined to marry the narrator's elderly widowed father for heaven knows what ulterior motive, brings a raw blast of reality from a bit of eastern Europe that makes Ms Goldsworthy's middle-class Serbian background seem no scarier than an outer suburb of London.

One of these books is fact, the other fiction, but both share common themes. You may think you are living in Britain, but when you have roots in eastern Europe, there is no escaping history or geography. Ms Lewycka's narrator, Nadia, unscrambles her miserably sour relationship with her sister only through poking into the most hideous, long-forgotten corners of their family history. The author's imaginary world lets her explore the sort of problems that other east European émigrés in Britain often fear but seldom confront: chiefly, what to do with people we are supposed to like but don't trust or understand. Her dialogue, conducted between educated people who lack a common language, is a comic feast.

The cerebral Ms Goldworthy's memoir is amusing too, although in delicate watercolours rather than Ms Lewycka's riotous oil painting of senility, lust and greed. Both books are a help to understanding the European continent's past woes and current muddles.

Chernobyl Strawberries: A Memoir.
By Vesna Goldsworthy.
Atlantic Books; 290 pages; £14.99

By Marina Lewycka.
The Penguin Press; 304 pages; $24.95.
Penguin/Viking; £12.99

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New poetry

King of the kaleidoscope

Mar 23rd 2005
From The Economist print edition

THERE was a time when John Ashbery's obtuse writing style was seen as too strange to be poetry at all. All that interweaving of scraps of conversation with literary references, mixing the high-flown and the orotund with the casually demotic, used to give his readers vertigo. Now, though, Mr Ashbery, who will be 78 in July, has become something of a national monument, albeit one which visitors walk around and occasionally, if still a little warily, even glance up at.

This month Mr Ashbery publishes his latest book of poetry. Last November he brought out a collection of selected prose, which included book and film reviews, literary essays and art criticism. Each of these books sheds light upon the other.

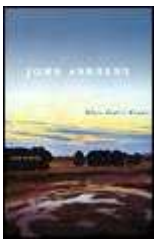
The poetry is vintage Ashbery. The ease and the seeming casualness of the voice works in direct opposition to the complexity of the message. Readers are drawn into tiny fragments of storylines which are forever thwarted by the poet's unexpected veerings off in entirely different directions. High and low vocabularies sit together, the homely rubbing shoulders with the sacred. Reading through this collection is a little like Alice's pursuit of the White Rabbit, that respectably dressed creature who was forever hurrying ahead checking his watch and muttering to himself. Mr Ashbery's poetry, too, sometimes seems like private mutterings which are not quite meant to be overheard.

His prose, however, helps us to get beneath the skin of Ashbery the poet in quite fascinating ways. When he writes about other writers and other artists, he seems to be explicating his own work, explaining both what it is and the way it came to be how it is. When he talks about Gertrude Stein, he refers to the world which she creates in her poetry as a counterfeit of reality that is more real than reality itself. This may well be what Mr Ashbery intends in his own work. He has never wanted to describe a world which is common to us all.

Gertrude Stein believed that her work had to mirror the messy complicatedness of life, which swipes at you from all directions. Mr Ashbery feels the same way. When he describes the work of Pierre Reverdy, a French poet, with its overheard fragments of conversation, its dismembered advertising slogans and its generally bizarre collage-like method of proceeding, he could just as easily be describing one of his poems.

Mr Ashbery loves the weird, the outlandish and the ceaselessly digressive in others, and one is led to believe, in himself. The American poet, in writing about Raymond Roussel, another French writer, wondered whether he was a curiosity or a genius. The same could be asked of Mr Ashbery

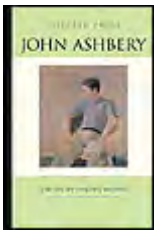
Where Shall I Wander: New Poems
Edited by John Ashbery. Edited by Eugene Richie



Ecco; 96 pages; $22.95. Carcanet Press; £7.95

Buy it at
Amazon.com
Amazon.co.uk

Selected Prose
By John Ashbery



University of Michigan Press; 336 pages; $29.95. Carcanet Press; £14.95

Buy it at
Amazon.com
Amazon.co.uk

himself.

Where Shall I Wander: New Poems.
By John Ashbery.
Ecco; 96 pages; $22.95.
Carcanet Press; £6.95

By John Ashbery. Edited by Eugene Richie.
University of Michigan Press; 336 pages; $29.95.
Carcanet Press; £14.95

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Economist.com BOOKS & ARTS

New fiction

Our father

Mar 23rd 2005
From The Economist print edition

LOUISA MAY ALCOTT'S classic “Little Women” begins on a Christmas Eve early in the American civil war, as the improbably angelic March family mourns the absence of their patriarch, a minister with Union troops. The novel closes on the following year's Christmas Day, when John March is joyously reunited with his four lively daughters and patient wife Marmee. Even living at the edges of the war, the women have suffered much stoical privation.

March
By Geraldine Brooks

Viking; 288 pages; $24.95.
Fourth Estate; £12.99

Buy it at
Amazon.com
Amazon.co.uk

What March himself suffered in that trying year Alcott left largely to her reader's imagination—in particular to the imagination of Geraldine Brooks, whose second novel shifts the frame to tell the father's story. Researched with great historical thoroughness, “March” hews faithfully to the spirit of Alcott's original. The familiar daughters Jo, Meg, Beth and Amy do feature, as does Marmee to a greater degree but most of the plot and characters are Ms Brooks's own invention.

Modelled on Alcott's father, March is a Utopian abolitionist in New England who gives shelter to escaped slaves travelling the Underground Railroad. A well-read autodidact devoted to a range of noble causes, the idealistic minister bankrupts his family by funding John Brown, a militant slave insurrectionist. When the war begins, March is moved to enlist as a chaplain, and leaves his impoverished family behind to head south.

Yet much of our hero's benevolence goes awry. Soldiers spurn his counsel. When he gives into temptation—something of a relief for readers overdosing on virtue—and beds a well-educated ex-slave, March is caught in the act, and exiled to a cotton plantation in Union hands. There he teaches literacy to liberated slaves, only for Confederate troops to re-take the land, and murder or re-enslave nearly all of his charges. Towards the end of the year described in “Little Women” (which Ms Brooks, to right an historical inconsistency, has changed from 1861 to 1862), March is a ruined man laid up in a Washington hospital, skeletal, malarial and delirious with guilt over both his infidelity and the many casualties of war whom he has failed to rescue.

Though all this ceaseless goodness does grow a little oppressive, Ms Brooks merely imbues her pages with the same perfume that rises from Alcott's account of the saintly Marches. The novel's voice captures well the flowery, elegant prose of a bookish 19th-century reverend. And the text is anything but sentimental about the civil war itself, whose stench and waste is depicted with brutal clarity.

Writers who borrow (or steal) their predecessors' characters must walk a fine line between imitation and inspiration—to make the story their own without taking presumptuous liberties. One does not, for example, envy the author who was recently commissioned by London's Great Ormond Street children's hospital to write a sequel to “Peter Pan”, even for charity.

Yet Alcott fans will find “March” both respectful and sufficiently full in its own right that it might have thrived without piggy-backing on a book that so took Ms Brooks on first reading when she was a child. For while “March” probably benefits from the tie-in to characters beloved to many American readers, the novel is far better than a creative-writing exercise, and enhances rather than appropriates its sister work from 1868. Louisa May Alcott would be well pleased.

March.
By Geraldine Brooks.
Viking; 288 pages; $24.95.
Fourth Estate; £12.99

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New film

The double life of Melinda

Mar 23rd 2005 | LOS ANGELES
From The Economist print edition

Woody Allen's new film shows him at both his best angles

UNLIKE Krzysztof Kieslowski's metaphysical film about Veronique, Woody Allen's "Melinda and Melinda" is a playful summing up of the two sides of this filmmaker's career: benign Dr Woody Jekyll and his grim doppelganger, Mr Ingmar Hyde, who made "Interiors".

Melinda's life is either tragedy or comedy, depending on who is talking. Both the storytellers here are playwrights, Max (Larry Pine) and Sy (Wallace Shawn). Over dinner at a trendy Manhattan bistro on a rainy night just made for tale-spinning, the two men compare their favourite genres. Sy, sporting Mr Shawn's trademark face-splitting grin, argues that human life is tragic—hence the need for comic art—while dour Max maintains that it is absurd, hence the inevitability of tragedy.

To demonstrate their respective theses the two men recount, in alternating episodes, two versions of a dinner party interrupted by a woman on the verge of a nervous breakdown. Even before Melinda (played in both stories by Radha Mitchell) makes an appearance, Max's tragedy and Sy's romantic comedy begin to bifurcate.

Max's dinner party is being thrown by Melinda's college chum Laurel (Chloe Sevigny) to butter up a producer who can give her actor/husband Lee (Jonny Lee Miller) a coveted role, until Melinda, a haggard ghost from the past, stumbles into the party chain-smoking and guzzling Scotch. Impish Sy, on the other hand, makes the hostess Susan (Amanda Peet) a director bent on convincing a producer to sink a couple of million dollars into her next film, "The Castration Cantata". Meanwhile, her amiable husband Hobie (Will Ferrell) takes care of the Alaskan baked salmon—only to have Melinda, their downstairs neighbour, crash in with a stomach full of sleeping pills.

Funny girl

Mr Allen is not the first director to portray characters pursuing contrasting destinies framed by parallel universes. Other examples include Alain Resnais's "Smoking/No Smoking" and "Sliding Doors" by Peter Howitt. But he may be the first to show the duelling demi-urges behind his dual reality exchanging trade secrets over dessert.

And speaking of doubles: like Jason Biggs in "Anything Else" (2003), Mr Ferrell is really playing Woody Allen here, complete with neurotic body language, which sits bizarrely on his hulking frame. Apparently we have entered Woody Allen's Surrogate Period. Who will be the next actor to try on the "Woody" character—Hilary Swank? Mr Allen's new gambit offers endless possibilities. A bit like life, really.

Obituary

George Kennan

Mar 23rd 2005
From The Economist print edition

Corbis

George Kennan, diplomat and historian, died on March 17th, aged 101

IN LATER life, George Kennan felt his words had been much misunderstood. Worse, they had "inadvertently loosened a large boulder from the top of a cliff." Yet he always chose his words skilfully, making an art of cables and memos as well as his 22 books. Dean Acheson, whom Mr Kennan served when he was secretary of state, once put it this way: "The trouble with George is that he writes so beautifully, he can convince you of anything." Then he put it another way: George reminded him of his father's old horse, which, when crossing wooden bridges, would frighten himself with the noise he had made.

Mr Kennan's most resonant words had been about the Soviet Union. He had sent them in a famous "Long Telegram"—in fact, five separate cables, to avoid suspicion—that was tapped out from the American embassy in Moscow to the State Department in Washington on February 22nd 1946. The telegram explained that the Soviet regime was fundamentally insecure; that it feared foreign contact, and any intimation of the truth by its own people; that the regime was implacably opposed to the United States, and that its designs on the world were violent destabilisation.

This cable, one of the most shocking to come into the State Department, was followed in 1947 by an article on "The Sources of Soviet Conduct" by "X" (Mr Kennan, with his hat-brim down) in *Foreign Affairs*. His observations, together with Russia's behaviour in those years in Eastern Europe, set a tone in America's foreign policy that led to the founding of NATO, the post-war arms-race in both conventional and nuclear weapons, the huge growth of the secret-ops arm of the Central Intelligence Agency, and the disaster of Vietnam. Mr Kennan had not meant this at all.

He had certainly talked of containing Russian power by meeting it with “counterforce” wherever it began to threaten western institutions. Hence “containment”, the word that was ever after linked to him. He also proposed, in a secret memo of May 1948, a covert “political warfare” unit that would aim to roll back communism rather than merely limit it. The pressure on Russia, though, was to be pre-eminently political, diplomatic and cultural (with a shot of propaganda, such as Radio Free Europe) rather than military. To Mr Kennan's horror, the generals and politicians took his words and ran with them.

He knew Russia better than any other American at the time. He had watched the Soviet experiment from the beginning; his first Soviet memo had been sent in his 20s, when he was third secretary in Riga, predicting that the system would fail. His Russian was faultless, and he had seen the yellow of Stalin's eyes. But many Americans concluded, when the Soviet Union eventually fell, that it was Ronald Reagan's doing, and his arms race that had tipped it.

The outsider

Mr Kennan loved Germany even before he loved Russia, learning the purest form of the language at the age of eight in Kassel. He was a chief architect of the Marshall Plan, and got into deep trouble in the 1950s for proposing a unified, neutral Germany from which both America and Russia would withdraw their troops. Suggestions like this got him labelled, falsely, as a liberal. Joe McCarthy's word was stronger.

He was never, in fact, accepted in the inner circles of power. Though his height, his charm and his intellect suggested that he came from the east-coast foreign-policy elite, he hailed from Milwaukee, Wisconsin, and had no private fortune. In 1953, when a jealous John Foster Dulles had fired him from the foreign service, he had no income at all. Shy and scholarly (“X” cited both Gibbon and Thomas Mann), he was a historian rather than a diplomat, and could be contrarian to a risky degree. Stalin had him expelled from Moscow in 1952, when he had been ambassador a mere five months, for being too frank about Soviet surveillance.

Despite his enormous influence under Harry Truman, Mr Kennan spent much of his time in the foreign service feeling bypassed and ignored. Though he was revered in his later years as America's greatest living diplomat, and continued to dispense sharp and sought-after commentary from Princeton, his style of big-power diplomacy inevitably came to look old-fashioned. For his part, by the end of his long life, he began to judge American foreign policy as out of focus and adrift.

At the core of his whole containment idea had been what he called “spiritual vitality”. America's destiny, he firmly believed in the 1940s, was to set an example to the world of how great democratic ideals might be put into practice. By daily and hourly proving the worth of its founding principles of liberty, justice and tolerance, America would defeat communism. History “plainly intended” it.

By the 1990s, Mr Kennan seemed to change this view. He wanted America to withdraw from its public advocacy of democracy and human rights: “this whole tendency to see ourselves as the centre of political enlightenment and as teachers...strikes me as unthought-through, vainglorious, and undesirable.” Behind this apparent shift, however, was the old George Kennan, who had always advocated caution, subtlety and patience in the use of power, without shrillness or pushiness, and had been proved right.

Overview

Mar 23rd 2005
From The Economist print edition

As expected, **America's** central bank raised its key interest rate by one-quarter of a percentage point to 2.75%. The Federal Reserve repeated its view that it can raise rates at a “measured” pace in the future. However, the markets were unnerved by the Fed's warning that inflationary pressures had picked up and that the pricing power of firms had become more evident.

Bond yields jumped after the Fed's statement. Yields on America's ten-year Treasury note rose past 4.6%, the highest since July.

Stockmarket investors took fright, too. America's Nasdaq index closed on March 22nd, the day of the Fed's statement, at its lowest level since early November. The S&P 500 index closed at its lowest level since late January.

In the foreign-exchange markets, the **dollar** rallied sharply after the Fed's announcement. It hit one-month highs against the euro, the yen, sterling and the Swiss franc.

In **Canada**, the value of retail sales rose by 2.0% in January compared with December, a much bigger increase than forecast.

In **Britain**, consumer prices rose in the year to February by 1.6%, a little lower than the markets were expecting. Annual inflation has been stuck at this rate since December.

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Output, demand and jobs

Mar 23rd 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.9	+ 3.2	+ 4.2	Q3	+ 2.2	Q4	5.1	Feb	5.9
Austria	+ 2.1	Q4	+ 1.1	+ 2.0	+ 2.1	+ 5.4	Dec	+ 2.4	Dec	4.5	Feb	4.4
Belgium	+ 2.6	Q4	+ 1.6	+ 2.1	+ 2.2	+ 4.5	Jan	+ 5.9	Dec	12.7	Feb†	12.8
Britain	+ 2.9	Q4	+ 2.9	+ 2.5	+ 2.4	+ 0.1	Jan	+ 3.6	Feb	4.7	Jan††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.9	+ 2.9	+ 3.3	Dec	+ 4.8	Dec	7.0	Feb	7.3
Denmark	+ 2.2	Q4	+ 2.7	+ 1.9	+ 2.1	− 1.4	Jan	+ 6.1	Jan	6.1	Jan	6.6
France	+ 2.1	Q4	+ 2.8	+ 1.9	+ 2.1	+ 2.9	Jan	− 0.7	Jan	10.1	Jan	9.9
Germany	+ 1.5	Q4	− 0.9	+ 1.1	+ 1.6	+ 3.5	Jan	− 1.1	Jan	11.7	Feb§	10.3
Italy	+ 1.0	Q4	− 1.2	+ 1.2	+ 1.6	− 1.5	Jan	− 1.5	Dec	7.8	Sep	8.4
Japan	+ 0.8	Q4	+ 0.5	+ 1.4	+ 1.8	+ 1.1	Jan	+ 2.4	Jan	4.5	Jan	5.0
Netherlands	+ 1.3	Q4	− 0.3	+ 1.2	+ 1.7	− 0.5	Jan	nil	Dec‡	6.5	Feb**	6.1
Spain	+ 2.7	Q4	+ 3.2	+ 2.6	+ 2.6	+ 1.0	Jan	+ 2.1	Jan	10.3	Jan	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.9	+ 2.7	− 0.5	Jan	+ 6.9	Jan	5.5	Feb†	6.0
Switzerland	+ 1.2	Q4	− 0.3	+ 1.6	+ 1.8	+ 3.5	Q3	− 3.1	Jan	4.1	Feb†	4.2
United States	+ 3.9	Q4	+ 3.8	+ 3.7	+ 3.2	+ 3.5	Feb	+ 4.9	Jan	5.4	Feb	5.6
Euro area	+ 1.6	Q4	+ 0.8	+ 1.6	+ 1.9	+ 1.0	Dec	− 0.6	Jan	8.8	Jan	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	+ 1.1	Jan	+ 4.8	Jan	9.2	Feb†	9.0
Greece	+ 4.2	Q4	na	na	na	− 1.1	Jan	+ 2.0	Dec	10.5	Jun	9.6
Iceland	+ 3.8	Q4	na	na	na	na		na		3.0	Jan†	3.7
Ireland	+ 5.8	Q3	na	na	na	+ 4.8	Jan	+ 5.3	Jan	4.2	Feb	4.5
Luxembourg	+ 2.1	2003	na	na	na	+ 5.9	Dec	− 2.5	Jan	4.7	Jan	4.4
New Zealand	+ 4.0	Q3	+ 1.9	na	na	+ 4.5	Q3	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 3.2	Q4	+ 6.1	na	na	− 4.0	Jan	+ 2.5	Jan	3.8	Feb‡	4.1
Portugal	+ 0.6	Q4	− 1.1	na	na	− 2.3	Jan	+ 4.7	Jan	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.6% in Feb. §EU harmonised rate 9.6% in Jan. **Dec-Feb.

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Prices and wages

Mar 23rd 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	The Economist poll consumer prices forecast 2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.6	Q4	+ 2.4	+ 2.6	+ 2.6	+ 8.2	Q4	– 1.1	+ 3.0	Q4	+ 6.0
Austria	+ 2.8	Feb	+ 1.4	+ 2.0	+ 1.6	+ 4.6	Feb	+ 1.8	+ 2.1	Jan	+ 2.2
Belgium	+ 2.6	Feb	+ 1.3	+ 1.8	+ 1.7	+ 3.0	Jan	+ 1.9	+ 2.3	Jan	+ 1.9
Britain	+ 1.6	Feb*	+ 1.3	+ 1.8	+ 1.8	+ 2.8	Feb	+ 1.6	+ 4.4	Jan†	+ 4.8
Canada	+ 2.0	Jan	+ 1.2	+ 1.9	+ 2.1	+ 3.2	Jan	– 3.1	+ 2.5	Dec	+ 5.1
Denmark	+ 1.3	Feb	+ 0.9	+ 1.4	+ 1.7	+ 3.5	Feb	– 0.1	+ 2.8	Q4	+ 3.5
France	+ 1.6	Feb	+ 1.8	+ 1.7	+ 1.5	+ 2.8	Jan	+ 0.3	+ 3.0	Q4	+ 2.7
Germany	+ 1.8	Feb	+ 0.9	+ 1.3	+ 1.1	+ 3.8	Feb	nil	+ 1.5	Dec	+ 1.5
Italy	+ 1.9	Feb	+ 2.3	+ 2.0	+ 1.9	+ 4.5	Jan	+ 0.4	+ 3.3	Dec	+ 2.6
Japan	– 0.1	Jan	– 0.3	nil	+ 0.3	+ 1.3	Feb	nil	– 0.6	Jan	+ 1.2
Netherlands	+ 1.6	Feb	+ 1.2	+ 1.2	+ 1.4	+ 4.7	Jan	– 0.6	+ 1.0	Feb	+ 1.9
Spain	+ 3.3	Feb	+ 2.1	+ 2.8	+ 2.6	+ 4.8	Jan	+ 0.7	+ 2.2	Q3	+ 3.1
Sweden	+ 0.7	Feb	– 0.3	+ 1.0	+ 1.7	+ 2.5	Jan	– 2.1	+ 2.0	Dec	+ 2.8
Switzerland	+ 1.4	Feb	+ 0.1	+ 1.1	+ 1.2	+ 1.7	Feb	– 0.1	+ 1.4	2003	+ 1.8
United States	+ 3.0	Jan	+ 1.9	+ 2.5	+ 2.4	+ 4.7	Feb	+ 2.0	+ 2.5	Feb	+ 1.6
Euro area	+ 2.1	Feb	+ 1.6	+ 1.8	+ 1.6	+ 3.9	Jan	+ 0.3	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.2	Feb	+ 0.1	na	na	+ 2.2	Feb	– 1.7	+ 3.0	Q4	+ 4.2
Greece	+ 3.1	Feb	+ 2.5	na	na	+ 2.9	Dec	+ 2.1	na		na
Iceland	+ 4.7	Mar	+ 1.8	na	na	+ 8.1	Feb	+ 1.4	+ 6.7	Feb	+ 3.3
Ireland	+ 2.2	Feb	+ 1.7	na	na	– 0.4	Jan	– 8.2	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.2	Feb	+ 2.0	na	na	+18.2	Jan	– 0.2	– 0.3	Dec	na
New Zealand	+ 2.7	Q4	+ 1.6	na	na	+ 3.4	Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.0	Feb	– 1.7	na	na	+14.4	Feb	– 1.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.2	Feb	+ 2.1	na	na	+ 4.2	Jan	– 0.3	+ 0.6	Jan	nil

*New series. RPI inflation rate 3.2% in Feb. †Nov-Jan.

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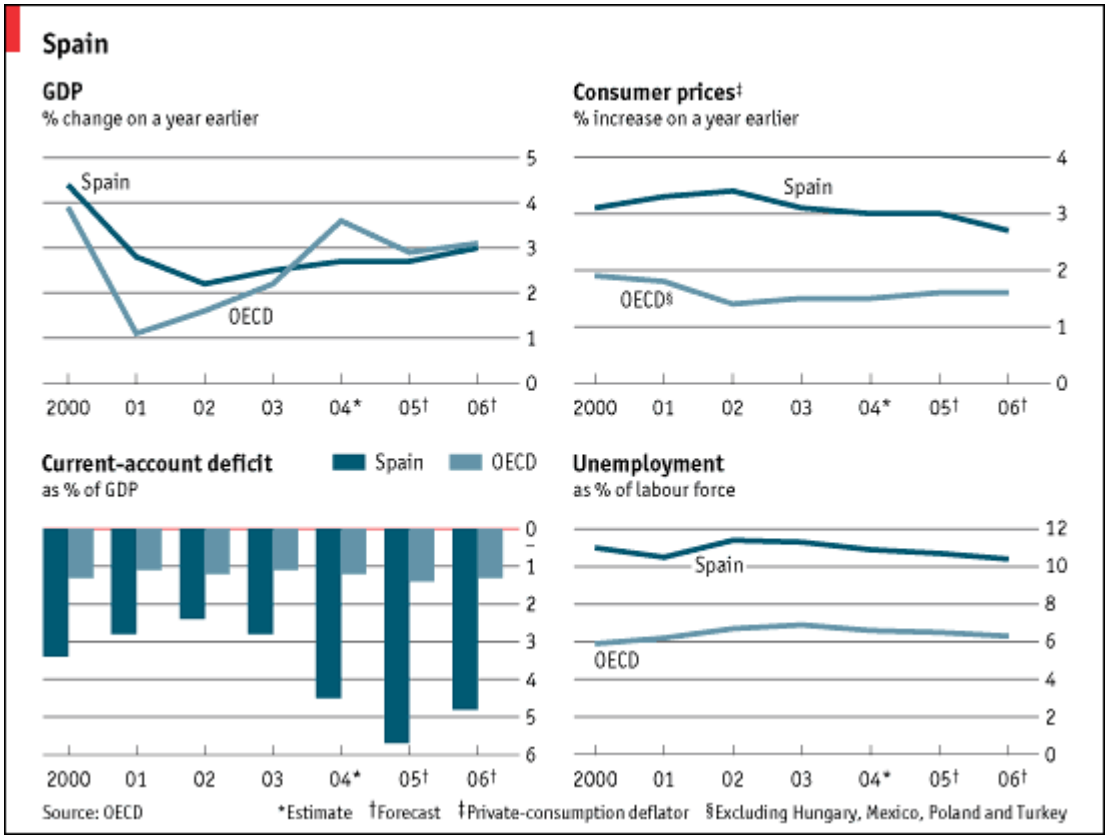
Spain

Mar 23rd 2005
From The Economist print edition



Robust growth, buoyant house prices and a yawning trade deficit—Spain's economy would be reminiscent of America's if it were not for the country's prudent fiscal policy and anaemic productivity growth. Prices are rising faster in Spain than in the euro area as a whole, eroding the country's competitiveness, says the latest survey of the country by the OECD. Unemployment remains uncomfortably high by OECD standards, though admirably low by the standards of recent Spanish history. In 1995, Spain's standard of living was 20% below the average of the countries of the euro area. By 2003, it was less than 13% below. Within Europe, Spain is converging quickly. But in the global economy, others are catching up with it. The OECD urges Spain not to lose itself in a cul-de-sac of low-technology industries, hemmed in by cheaper, foreign rivals.

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Money and interest rates

Mar 23rd 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Mar 22nd 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.5	+ 9.5	Jan	5.85	5.49	5.63	5.72	5.30	6.60
Britain	+ 5.9	+ 9.3	Feb	4.91	4.25	4.72	4.77	4.65	5.23
Canada	+13.9	+ 9.9	Jan	2.51	2.00	3.30	4.51	4.15	5.70
Denmark	+13.5	+ 9.5	Jan	2.25	2.12	2.50	3.74	3.97	5.06
Japan	+ 4.0	+ 1.9	Feb	0.02	0.03	0.11	1.41	1.30	1.49
Sweden	+ 2.1	+ 4.5	Jan	1.96	2.12	2.17	3.77	4.12	3.57‡
Switzerland	– 5.5	+ 1.4	feb	0.75	0.25	1.18	2.29	2.32	2.18
United States	+ 4.1	+ 5.5	Feb	2.90	1.02	3.79	4.60	3.71	5.60
Euro area†	+ 9.2	+ 6.6	Jan	2.14	2.02	2.50	3.65	3.81	3.90

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.62%, Japan No. 268 1.42%. Central bank rates: US fed funds 2.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 23rd 2005
From The Economist print edition

2000=100

	Mar 15th	Mar 21st*	% change on one month	% change on one year
Dollar index				
All items	141.6	137.9	+ 4.3	– 2.7
Food	137.9	131.8	+ 6.6	–10.7
Industrials				
All	146.4	145.7	+ 1.7	+ 8.7
Nfa†	132.8	131.7	+ 2.8	– 7.4
Metals	153.9	153.4	+ 1.2	+18.3
Sterling index				
All items	112.1	110.3	+ 4.8	– 5.2
Euro index				
All items	98.4	96.7	+ 4.6	– 9.2
Yen index				
All items	137.2	134.4	+ 5.1	– 4.2
Gold				
$ per oz	440.53	431.65	– 0.6	+ 3.7
West Texas Intermediate				
$ per barrel	54.95	56.84	+12.2	+52.0

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Mar 23rd 2005
From The Economist print edition

Market indices

	Mar 22nd	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,225.5	4,255.8	4,033.3	+ 0.3	– 0.1	+ 4.3	+ 5.2
Austria (ATX)	2,637.8	2,781.6	2,415.0	– 3.2	– 5.2	+ 8.5	+ 5.4
Belgium (Bel 20)	3,084.7	3,153.1	2,958.8	– 0.4	–16.2	+ 5.2	+ 2.2
Britain (FTSE 100)	4,937.3	5,060.8	4,783.6	– 1.3	–28.8	+ 2.6	+ 1.5
Canada (Toronto Composite)	9,647.2	9,927.2	9,006.2	– 0.6	–15.3	+ 4.3	+ 4.1
Denmark (KBX)	281.4	287.4	257.8	– 1.3	– 6.8	+ 9.1	+ 5.9
France (SBF 250)	2,801.3	2,844.1	2,633.6	– 0.8	–36.2	+ 6.3	+ 3.3
(CAC 40)	4,047.2	4,108.0	3,816.1	– 0.7	–41.5	+ 5.9	+ 2.9
Germany (DAX)	4,320.7	4,428.1	4,201.8	– 1.5	–46.4	+ 1.5	– 1.4
Italy (S&P/MIB)*	31,965.0	32,371.0	30,645.0	nil	–36.2	+ 3.4	+ 0.5
Japan (Nikkei 225)	11,842.0	11,966.7	11,238.4	+ 0.2	–69.6	+ 3.1	+ 0.6
(Topix)	1,202.5	1,203.3	1,132.2	+ 0.8	–58.3	+ 4.6	+ 2.1
Netherlands (AEX)	369.7	379.8	350.1	– 1.1	–47.3	+ 6.2	+ 3.2
Spain (Madrid SE)	996.4	1,025.8	950.9	– 0.5	–13.1	+ 3.9	+ 0.9
Sweden (Affarsvarlden Gen)	233.3	237.2	218.9	– 1.2	–41.7	+ 5.4	+ 1.3
Switzerland (Swiss Market)	5,915.6	6,014.6	5,669.6	– 1.6	–29.7	+ 3.9	+ 0.4
United States (DJIA)	10,470.5	10,940.6	10,368.6	– 2.6	–10.7	– 2.9	– 2.9
(S&P 500)	1,171.7	1,225.3	1,163.8	– 2.2	–23.3	– 3.3	– 3.3
(NASDAQ Comp)	1,989.3	2,152.2	1,989.3	– 2.2	–60.6	– 8.6	– 8.6
Europe (FTSEurofirst 300)†	1,081.7	1,107.6	1,038.6	– 1.2	–36.6	+ 3.8	+ 0.9
Euro area (FTSE Euro 100)†	932.3	952.4	894.4	– 1.0	–39.9	+ 3.5	+ 0.5
World (MSCI)‡	1,157.4	1,193.0	1,128.2	– 1.7	–20.1	– 1.0	– 1.0
World bond market (Citigroup)††	654.0	662.3	648.6	– 0.6	– 1.3	– 1.8	– 1.8

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Mar 23rd 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 1990=100 Mar 22nd	year ago	Currency units per $ Mar 22nd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.2	Jan	− 39.4	Q4	− 5.7	− 5.3	89.2	87.5	1.26	1.34	2.40	1.67	1.20	+ 0.7
Austria	nil	Dec	− 1.4	Jan	− 0.8	− 0.9	105.0§	104.6	0.76	0.82	1.44	–	0.72	− 1.5
Belgium	+ 18.4	Jan	+ 11.7	Sep	+ 3.4	+ 3.5	105.8§	105.3	0.76	0.82	1.44	–	0.72	− 0.1
Britain	−106.4	Jan	− 49.0	Q4	− 2.7	− 2.8	102.8	105.7	0.53	0.54	–	0.70	0.50	− 3.2
Canada	+ 51.0	Jan	+ 23.4	Q4	+ 2.1	+ 1.6	95.0	85.9	1.20	1.34	2.28	1.59	1.14	+ 1.1
Denmark	+ 9.5	Jan	+ 5.9	Dec	+ 2.4	+ 2.3	107.3	106.3	5.64	6.10	10.7	7.45	5.37	+ 0.9
France	− 12.7	Jan	− 10.3	Jan	− 0.5	− 0.4	108.6§	107.9	0.76	0.82	1.44	–	0.72	− 3.7
Germany	+196.0	Jan	+103.2	Jan	+ 2.9	+ 3.0	106.5§	105.8	0.76	0.82	1.44	–	0.72	− 3.9
Italy	− 1.1	Jan	− 12.6	Dec	− 1.0	− 1.1	77.7§	77.2	0.76	0.82	1.44	–	0.72	− 2.9
Japan	+129.5	Jan	+169.2	Jan	+ 3.5	+ 3.4	135.3	138.4	105	106	199	139	–	− 6.5
Netherlands	+ 36.8	Jan	+ 24.1	Q4	+ 3.4	+ 3.3	105.4§	104.8	0.76	0.82	1.44	–	0.72	− 2.9
Spain	− 75.5	Dec	− 49.3	Dec	− 4.2	− 4.2	78.0§	77.7	0.76	0.82	1.44	–	0.72	− 1.1
Sweden	+ 23.1	Jan	+ 28.0	Q4	+ 6.8	+ 6.1	82.4	79.8	6.92	7.60	13.1	9.13	6.59	+ 0.5
Switzerland	+ 7.3	Feb	+ 44.7	Q3	+12.1	+11.7	113.0	111.4	1.18	1.27	2.23	1.55	1.12	− 1.6
United States	−678.1	Jan	−665.9	Q4	− 5.9	− 5.7	90.3	96.1	–	–	1.90	1.32	0.95	− 4.4
Euro area	+ 86.4	Jan	+ 46.1	Jan	+ 0.6	+ 0.6	93.8	90.0	0.76	0.82	1.44	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.3	Jan	+ 8.7	Jan	na	na	82.6§	82.2	0.76	0.82	1.44	–	0.72	+ 2.3
Greece	− 32.1	Jan	− 11.5	Jan	na	na	60.5§	60.3	0.76	0.82	1.44	–	0.72	− 5.3
Iceland	− 0.6	Jan	− 1.0	Q4	na	na	99.1**	93.5	58.9	71.9	112	77.8	56.1	+ 0.1
Ireland	+ 42.0	Jan	− 1.6	Q3	na	na	96.5§	95.5	0.76	0.82	1.44	–	0.72	+ 0.2
Luxembourg	− 4.5	Dec	+ 2.3	Q3	na	na	105.8§	105.3	0.76	0.82	1.44	–	0.72	− 0.4
New Zealand	− 2.7	Jan	− 6.2	Q4	na	na	112.0	102.4	1.35	1.54	2.56	1.78	1.29	+ 2.9
Norway	+ 35.1	Feb	+ 34.4	Dec	na	na	99.6	95.6	6.19	6.89	11.8	8.17	5.90	+ 8.2
Portugal	− 19.1	Dec	− 13.6	Jan	na	na	93.3**	93.4	0.76	0.82	1.44	–	0.72	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. ††New series.
**IMF, November average.

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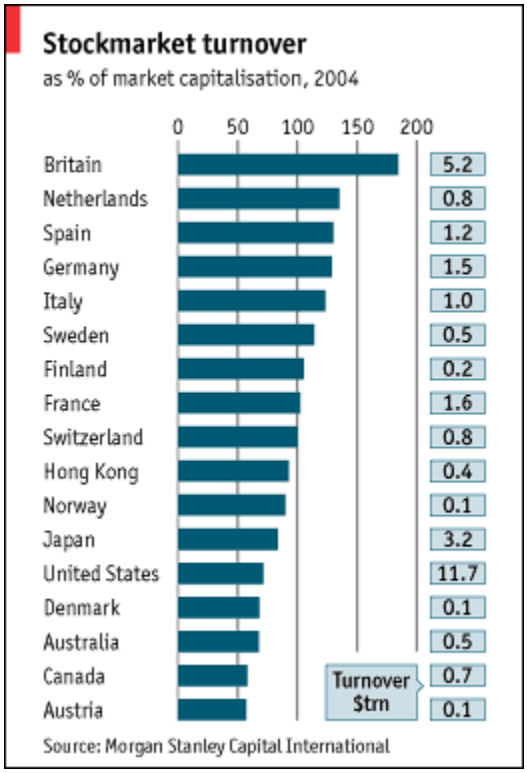
Stockmarket turnover

Mar 23rd 2005
From The Economist print edition



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Overview

Mar 23rd 2005
From The Economist print edition

The economy of **South Korea** grew by 3.3% in the year to the fourth quarter of 2004. That was slower than analysts expected, though private consumption strengthened.

Brazil's current-account surplus narrowed to $11.7 billion in the year to February.

Industrial production in **Hong Kong** rose by 5% in the year to the fourth quarter.

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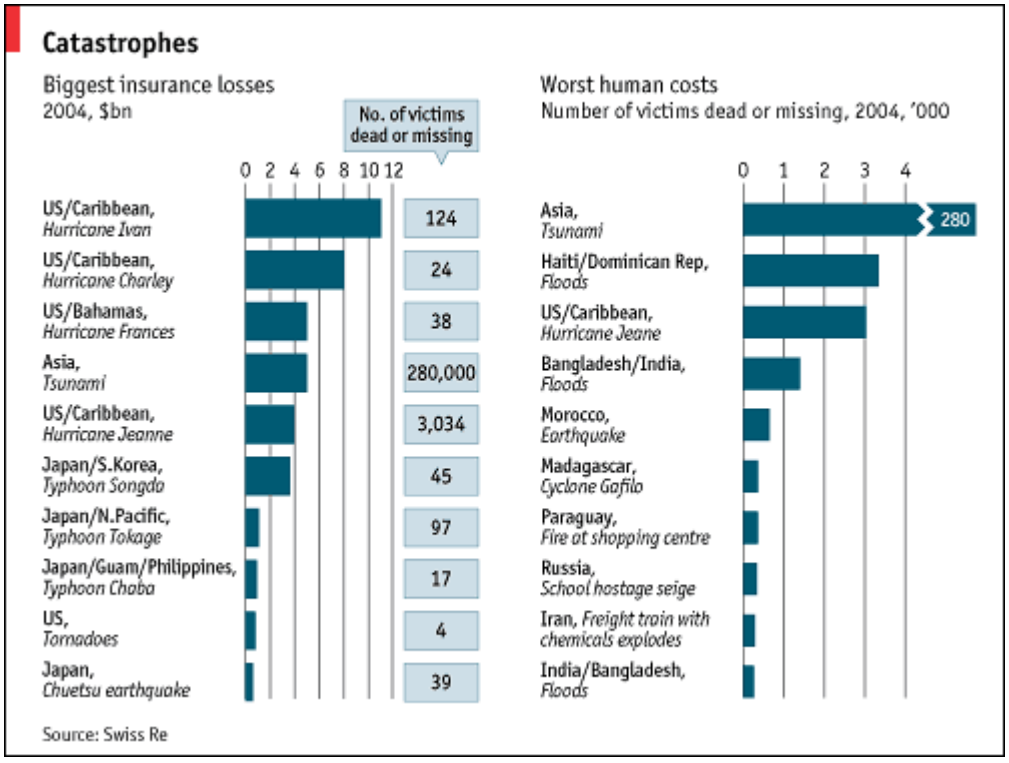
Catastrophes

Mar 23rd 2005
From The Economist print edition



Over 280,000 are now dead or missing from the Boxing Day tsunami, reports Swiss Re, a reinsurance company. And yet 13 hurricanes in the United States and its neighbours, plus a record ten typhoons in Japan, were more expensive for the insurers, costing $38 billion. Hurricane Andrew, in 1992, remains the biggest insured loss: $21.5 billion.

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Economy

Mar 23rd 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q4	+ 8.9	Jan	+ 3.9	Feb	+51.0	Feb	+45.9	2003	609.9	Dec
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Feb	−12.4	Jan	+13.7	Q3	123.9	Feb
India	+ 6.6	Q3	+ 8.0	Jan	+ 4.4	Jan	−25.0	Feb	+ 3.5	Q3	129.8	Feb
Indonesia	+ 6.7	Q4	− 2.3	Aug	+ 7.2	Feb	+24.5	Jan	+ 4.0	Q3	34.8	Jan
Malaysia	+ 5.6	Q4	+ 2.9	Jan	+ 2.4	Feb	+21.7	Jan	+14.7	Q3	68.8	Jan
Philippines	+ 5.4	Q4	+ 5.7	Dec	+ 8.5	Feb†	− 0.2	Jan	+ 4.4	Sep	13.6	Feb
Singapore	+ 6.5	Q4	+ 9.9	Jan	nil	Feb	+15.6	Feb	+27.9	Q4	113.9	Feb
South Korea	+ 3.3	Q4	+14.2	Jan	+ 3.3	Feb	+30.3	Feb	+29.1	Jan	202.1	Feb
Taiwan	+ 3.3	Q4	−13.3	Feb	+ 1.9	Feb	+ 5.6	Feb	+19.0	Q4	246.6	Feb
Thailand	+ 5.1	Q4	+ 3.9	Jan	+ 2.5	Feb	+ 0.2	Jan	+ 5.5	Jan	47.8	Jan
Argentina	+ 8.3	Q3	+ 4.9	Jan	+ 8.1	Feb	+12.3	Jan	+ 3.6	Q3	20.8	Feb
Brazil	+ 4.9	Q4	+ 5.9	Jan	+ 7.4	Feb	+35.1	Feb	+11.7	Feb	58.5	Feb
Chile	+ 6.8	Q3	+ 5.3	Jan	+ 2.1	Feb	+ 9.1	Feb	+ 1.4	Q4	15.5	Feb
Colombia	+ 2.4	Q3	+ 5.2	Dec	+ 5.3	Feb	+ 0.9	Dec	− 1.4	Q3	13.7	Feb
Mexico	+ 4.9	Q4	+ 3.1	Jan	+ 4.3	Feb	− 9.5	Jan	− 8.7	Q4	65.0	Jan
Peru	+ 9.1	Dec	+10.6	Dec	+ 1.7	Feb	+ 2.9	Jan	− 0.1	Q4	12.3	Jan
Venezuela	+11.2	Q4	+13.2	Dec	+16.9	Feb	+22.1	Q4	+14.6	Q4	18.4	Dec
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+11.4	Dec	− 8.1	Q3	+ 4.1	Q3	14.3	Dec
Israel	+ 4.8	Q4	+ 6.4	Jan	+ 0.8	Feb	− 7.0	Feb	+ 0.5	Q4	27.1	Feb
South Africa	+ 4.7	Q4	+ 7.8	Dec	+ 3.0	Jan	− 2.4	Jan	− 4.7	Q3	13.9	Feb
Czech Republic	+ 4.3	Q4	+ 7.2	Jan	+ 1.7	Feb	− 0.8	Jan	− 5.6	Q4	27.8	Feb
Hungary	+ 3.8	Q4	+ 2.8	Jan	+ 3.2	Feb	− 2.5	Q3	− 8.6	Q3	17.6	Feb
Poland	+ 3.9	Q4	+ 2.1	Feb	+ 3.6	Feb	− 6.1	Dec	− 3.6	Dec	39.6	Jan
Russia	+ 6.7	Q4	+ 5.1	Feb	+12.8	Feb	+91.1	Jan	+58.2	Q4	130.4	Feb
Turkey	+ 4.5	Q3	+ 6.8	Jan	+ 8.7	Feb	−35.2	Jan	−16.1	Jan	37.1	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 2.5	Jan	+ 4.5	Feb	− 2.5	Dec	− 1.5	Q3	1.7	Jan
Latvia	+ 8.6	Q4	− 3.1	Jan	+ 6.9	Feb	− 2.8	Dec	− 1.7	Dec	1.8	Jan
Lithuania	+ 6.7	Q4	na		+ 3.3	Feb	− 3.0	Jan	− 2.0	Q3	3.4	Jan
Slovakia	+ 5.8	Q4	+ 5.5	Jan	+ 2.7	Feb	− 1.5	Jan	− 1.2	Nov	14.3	Jan
Slovenia	+ 4.3	Q4	+ 6.3	Dec	+ 2.6	Feb	− 1.5	Jan	− 0.2	Jan	8.8	Dec
Pakistan	+ 6.4	2004‡	+28.3	Nov	+ 9.9	Feb	− 5.2	Jan	− 0.9	Q4	10.5	Feb
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Dec	+59.1	2003	+28.0	2003	24.7	Jan

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Mar 23rd 2005
From The Economist print edition

	Currency units per $ Mar 22nd	Currency units per $ year ago	Currency units per £ Mar 22nd	Interest rates short-term % a year	Stockmarkets Mar 22nd	% change on one week	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
China	8.28	8.28	15.7	2.25	1,266.4	-4.9	- 4.8	- 4.8
Hong Kong	7.80	7.80	14.8	2.45	13,776.5	-0.3	- 3.2	- 3.5
India	43.7	44.7	83.0	5.19	6,535.5	-3.2	- 1.0	- 1.5
Indonesia	9,395	8,575	17,844	7.56	1,152.6	+3.0	+ 15.2	+ 13.9
Malaysia	3.80	3.80	7.22	2.82	878.6	-2.2	- 3.2	- 3.2
Philippines	54.1	56.3	102.8	6.38	1,999.2	-5.1	+ 9.7	+ 13.7
Singapore	1.64	1.69	3.11	2.00	2,176.4	+0.6	+ 5.3	+ 5.2
South Korea	1,010	1,155	1,918	3.55	980.4	-1.3	+ 9.4	+ 12.2
Taiwan	31.3	33.1	59.4	1.35	6,018.8	-0.7	- 2.0	- 0.7
Thailand	38.6	39.5	73.4	2.62	699.5	+0.4	+ 4.7	+ 5.3
Argentina	2.91	2.88	5.53	4.44	1,393.6	+0.5	+ 1.3	+ 3.4
Brazil	2.71	2.93	5.15	19.24	26,618.1	-3.5	+ 1.6	- 0.4
Chile	584	614	1,108	3.00	9,384.6	+1.7	+ 4.7	- 0.3
Colombia	2,367	2,665	4,496	7.36	4,763.5	+4.5	+ 9.6	+ 8.9
Mexico	11.2	11.0	21.3	9.45	13,062.5	-0.9	+ 1.1	+ 0.7
Peru	3.26	3.46	6.19	2.83	4,242.0	+1.5	+ 14.3	+ 15.0
Venezuela	2,924§	3,269§	5,554	11.73	30,104.5	-0.8	+ 0.5	- 11.4
Egypt	5.80	6.21	11.02	10.49**	34,949.0	-11.3	+ 42.2	+ 48.8
Israel	4.31	4.51	8.19	1.00	675.6	-1.6	+ 4.9	+ 5.1
South Africa	6.06	6.57	11.5	7.65	13,465.5	-0.9	+ 6.4	- 1.1
Czech Republic	22.7	26.8	43.0	2.07	1,147.6	-5.5	+ 11.2	+ 9.6
Hungary	186	206	354	7.71	17,107.3	-4.3	+ 16.0	+ 12.7
Poland	3.08	3.85	5.85	6.09	26,840.7	-1.9	+ 0.8	- 2.0
Russia	27.6	28.5	52.4	13.00	674.3‡	-3.5	+ 9.2	+ 9.8
Turkey	1.33	1.32	2.52	17.48	25,218.2	-5.0	+ 1.0	+ 2.6
EMF (MSCI)*	1.00	1.00	1.90	na	557.3	-1.8	+ 2.8	+ 2.8
EMBI+†	1.00	1.00	1.90	na	324.8	-1.0	- 1.4	- 1.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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